Seven Turning Points.

H.J. HEINZ COMPANY 1988 ANNUAL REPORT

About this Report.

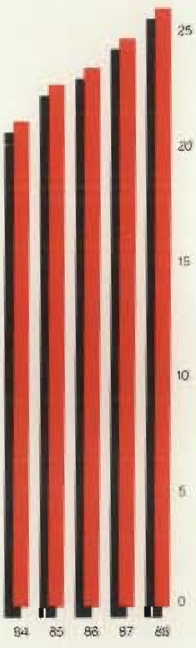
H.J. Heinz Company's history began with an enterprising young man peddling his freshly grated horseradish door to door in the Pittsburgh of 1869. Today, the company is active on six continents, marketing thousands of products in more than 200 countries and territories. How can such a vast global organization be managed successfully? What principles and techniques are employed to chart the company's course through a thicket of differing national tastes, trade regulations, even language problems? What are perceived as turning points in company growth? To find the answers to these questions, we asked the distinguished journalist Tom O'Hanlon, formerly a member of the board of editors of FORTUNE, to interview the senior vice presidents who serve on the World Headquarters Executive Committee, the group charged with responsibility for the company's operations. His essays highlight the 1988 Annual Report.

EXECUTIVE MESSAGE 3
THE YEAR AND CONVERSATIONS WITH TOP MANAGEMENT 6
FINANCIAL CHARTS AND FINANCIAL REVIEW 28
CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS 32
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION 33
CONSOLIDATED BALANCE SHEET 34
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 36
ELEVEN-YEAR SUMMARY OF OPERATIONS AND RELATED DATA 44
WORLD LOCATIONS 46
DIRECTORS AND OFFICERS 49
CORPORATE DATA 50

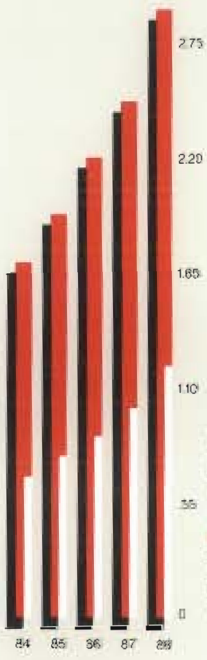
Highlights.

H.J. HEINZ COMPANY AND SUBSIDIARIES

(dollars in thousands except per share data)	*1988*	*1987*	*1986*
Sales	**$5,244,230**	$4,639,486	$4,366,177
Operating income	**688,013**	592,985	532,583
Net income	**386,014**	338,506	301,734
Per common share amounts:			
Net income	**$ 2.91**	$ 2.47	$ 2.20
Dividends	**1.21**	1.00½	.87½
Book value	**12.47**	10.81	10.17
Capital expenditures	**$ 238,265**	$ 184,730	$ 206,331
Depreciation expense	**119,425**	99,218	85,524
Net property	**1,253,939**	1,036,760	923,520
Cash and short-term investments	**$ 252,846**	$ 564,676	$ 405,255
Working capital	**589,721**	822,059	704,479
Total debt	**780,330**	876,620	540,588
Shareholders' equity	**1,593,856**	1,392,949	1,360,007
Average number of common shares outstanding	**127,604,310**	131,665,217	134,125,804
Current ratio	**1.55**	1.79	1.77
Debt/invested capital	**32.9%**	38.6%	28.4%
Pretax return on average invested capital	**30.0%**	29.5%	31.0%
Return on average shareholders' equity	**25.8%**	24.6%	23.3%



RETURN ON AVERAGE SHAREHOLDERS' EQUITY
(in percent)



DIVIDENDS AND EARNINGS PER COMMON SHARE
(in dollars)
Dividends
Earnings per share
Five-year compound growth:
Dividends 17.7%,
Earnings per share 14.0%

To Our Shareholders.

DR. ANTHONY J.F. O'REILLY - CHAIRMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER

Fiscal 1988 represented a fine year of achievement for the H.J. Heinz Company. The last 12 months combined growth in core businesses, dynamic performance by Weight Watchers worldwide and success in strategic acquisitions.

The immediate outcome of our efforts is confirmed by the figures on the opposite page. For the 24th consecutive year, H.J. Heinz Company surpassed all previous records for financial growth. As we near the quarter-century mark of consecutive growth records, we find ourselves examining, not uncritically, the tested formulas of past success. Due in large part to the yields of our low cost operator program, we have invested ample resources in strategies that will expand substantially the scope and size of Heinz enterprise.

The responsibility for our prosperity and our prospects lies with our management, both senior and subsidiary, who share a driving imperative for change. Depth of management skill remains our greatest resource, as Heinz continues its reliance on the initiative and inventiveness of its people. With this report, we pause to salute our top management. You will be introduced to our seven senior vice presidents through a series of brief essays, which will offer a glimpse of their perspectives on your company's present and their visions of its future. We hope you come away with a better idea of the considerable ambition of these executives to build Heinz into a bigger, more innovative company, with flourishing international brands on six continents.

Fiscal 1988 was a year of juncture, when established programs matured and new strategies emerged. We transformed the company as we nurtured our existing markets.

Perhaps the most profound transformation of our company has been a transformation of thought. We have generated new methods to capture new markets and reach new consumers. As we secure the benefits of our fiscal vitality, we are investing in seedbed companies that hold enormous promise, especially in the Pacific Basin and developing marketplaces that offer vigorous growth potential.

Heinz has been a particularly acute witness to the growing consumer preference for high nutrition and low calories. We have fashioned a strategy to cultivate this market with an ever-lengthening worldwide parade of new products and services under our Weight Watchers label.

In addition, the past year has seen an unprecedented surge of acquisition activity. Through our acquisitions of Champion Valley Farms, California Home Brands and the Mavar companies, we have made Heinz a leading presence in all segments of the dynamic pet foods business.

Heinz has gained entry to emerging economies on opposite sides of the globe by purchasing companies of proven performance. As noted previously, we expect to move in step with the rapid pace of growth, particularly in the Pacific Basin countries of Japan, the People's Republic of China and South Korea. The projected 1992 lowering of trade barriers within the European Community opens the doors to a market of more than 320 million people. This change, combined with recent acquisitions in Spain and Portugal, means that the Iberian Peninsula has become a dynamic internal market for our tomato and fish products and a low cost operator base for export to all of Europe and beyond. Fully 70% of our worldwide sales now comes from products that do not bear the Heinz brand, a fact that would have startled management and shareholders alike just 25 years ago.

Our established brands continue to prosper and contribute mightily to our earnings and our growth. We steadfastly reject the notion that there is such a thing as a mature product, or indeed, a mature category. Accordingly, we have further increased our marketing effort, devoting $450 million, or 8.6% of sales, more than triple the investment of a decade ago. Most important, half of our consolidated sales comes from products that are the number-one brands in their respective national categories. This is due, in no small measure, to our significantly increased expenditures for marketing support coupled with competitive price and profit margin advantages made possible by low cost operator status at home and abroad.

We continue to observe the paradox of our low cost operator program. Our satisfaction with results is directly matched

by our impatience at tasks undone and goals yet to be achieved. Our aim was, and remains, to produce more with less, to offer products of the highest quality and purity at the lowest possible cost. The low cost operator mandate, therefore, continues unabated. It remains embedded in our corporate culture, a source of savings for management and of greater return for investors.

Inspired by this success, we undertook an examination of our global operations. The result? Four intra-company task forces assembled to analyze general and administrative activities, manufacturing, sales-marketing and procurement on a corporate-wide basis rather than company by company.

This great concern with efficiency and organization has not distracted Heinz management from the primary goals of profits, sales and shareholder return. On the contrary, it has elevated our financial performance steadily and significantly. Heinz's gross profits have practically tripled over the past decade. As a percentage of net sales, our gross profit margin this past year stood at 39.5%, an exemplary contrast with the 32.7% recorded in 1978. During this same interval, our market capitalization grew more than eightfold. Within the past five years, investors who held Heinz company stock and reinvested their dividends saw their shares almost quadruple in value.

For Heinz, as for so many other companies, the Wall Street collapse of October 1987 represented an aberration in stock performance that was unwelcome, but not, in the long run, detrimental. Consumer confidence withstood the test of the headlines and was not badly dented, as most observers initially feared. Indeed, one might observe, somewhat piquantly, that the spectators of the collapse showed a much better grasp of the true perspective of events than the participants. Our investment risk proved much less severe than most, and our share value is trending upward once again. Heinz stands today as a prudent and profitable investment, with a balance sheet whose strength is unparalleled in the company's 119-year history.

The rapid pace of change and expansion during Fiscal 1988 makes even the recent past seem almost static by comparison. Furthermore, it has generated a momentum of performance that will carry us vigorously into the future. Our employees and our shareholders — many of whom are one and the same — have, I believe, good cause to view their company's future with confidence.

H.J. Heinz Company stands as a leader in its industry, rich in resources and progressive in outlook. We have been adventuresome, but not reckless, in extending our reach and expanding our product offerings. We have gained great ground in fulfilling our Founder's dream of making the world our field. Above all, we have assiduously cultivated the investments entrusted to our care. With success as our tradition and our goal, we look upon this productive year with satisfaction and impatience. The past must now serve as prelude to even greater achievement.

Anthony John Francis O'Reilly: CHAIRMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, SINCE 1987; b. DUBLIN, IRELAND, MAY 7, 1936; ed. BACHELOR OF CIVIL LAW, UNIVERSITY COLLEGE, DUBLIN/SOLICITOR, INCORPORATED LAW SOCIETY OF IRELAND/PH.D., U. OF BRADFORD, ENGLAND; CHIEF EXECUTIVE, IRISH DAIRY BOARD, 1962-66; MANAGING DIRECTOR, IRISH SUGAR CO. LTD. AND ERIN FOODS LTD., 1966-69; MANAGING DIRECTOR, H. J. HEINZ COMPANY LTD., HAYES PARK, ENGLAND, 1969-71; SENIOR VICE PRESIDENT - NORTH AMERICA AND PACIFIC, H. J. HEINZ COMPANY, PITTSBURGH, PENNSYLVANIA, 1971-72; EXECUTIVE VICE PRESIDENT AND CHIEF OPERATING OFFICER, HEINZ, 1972-73; PRESIDENT AND CHIEF OPERATING OFFICER, HEINZ, 1973-79; PRESIDENT AND CHIEF EXECUTIVE OFFICER, HEINZ, 1979-87; RUGBY: SELECTED TO REPRESENT IRELAND IN 29 INTERNATIONAL MATCHES AND TO REPRESENT BRITISH AND IRISH LIONS IN TEN WORLD CONTESTS; CHAIRMAN AND FOUNDER: THE IRELAND FUNDS; FELLOW: ROYAL SOCIETY OF ARTS, BRITISH INSTITUTE OF MANAGEMENT; CHAIRMAN: INTERNATIONAL LIFE SCIENCES INSTITUTE-NUTRITION FOUNDATION; DIRECTOR: THE CONFERENCE BOARD, LONDON TABLET FOUNDATION, EXECUTIVE COUNCIL ON FOREIGN DIPLOMATS, PITTSBURGH OPERA, GROCERY MANUFACTURERS OF AMERICA (TREASURER); TRUSTEE: UNIVERSITY OF PITTSBURGH, THE COMMITTEE FOR ECONOMIC DEVELOPMENT; COUNCIL MEMBER: ROCKEFELLER UNIVERSITY.


IRISHMAN
ABROAD

The Year.

MARKETING

Faced with ever-shifting changes in tastes and habits, the innovative marketer must accommodate the contemporary consumer. While carefully crafting new products, the marketer knows existing brands are capable of dramatic growth, as demonstrated by our experience in the 112-year-old ketchup line. Indeed, more than half of our consolidated sales last year was generated by established products holding number-one share positions in their respective national markets.

Heinz maintained a marketing stance in 1988 that was respectful of tradition, while entrepreneurial in approach. We extended our geographic reach, created a multitude of new products, acquired companies whose products filled niches or fleshed out our positions in rich categories, and kept our established brands at the forefront of their markets at home and abroad.

Low inflation continued to exercise its influence on pricing and profit strategies. The discipline of the low cost operator program kept our operating income high, while enabling us to keep our prices competitive. These economies, in combination with accelerated marketing efforts, helped us stave off aggressive competition in key categories, such as ketchup and baby foods.

Increasing concentration in the grocery and foodservice businesses expanded private label activity in many countries. Nonetheless, Heinz's big brands held steady or improved in market performance.

We continued to devote resources to marketing support of all kinds, investing $450 million or 18.5% over Fiscal 1987. This figure provides an interesting contrast to marketing expenditures just five years ago, when we spent $253 million in support of our products. Especially significant were outlays in support of our low-calorie, low-cholesterol products and other health-related services.

Heinz U.S.A. added to its impressive list of sales and market share records, with its flagship ketchup once again leading the way. Ketchup continued to hold more than 50% of the grocery market and garnered a 2% increase in cases sold. Heinz relish joined the list of number-one products, attaining a 46% share with the help of three new varieties, increased distribution and a newly designed squeezable container. Heinz 57 Sauce, Worcestershire Sauce, Saver Size Juice, vinegar and beans also scored notable gains.

Foodservice products took full advantage of the increasing popularity of away-from-home eating. On the counter, as well as in the kitchen, Heinz ketchup held an impressive lead, with 55% of the foodservice market. Single-serve ketchup, which had 10% of its market five years ago, now commands a 40% share. This year's increase marks the fifth consecutive year of double-digit growth. This success inspired national distribution of new single-serve varieties of mayonnaise, tartar sauce, relish and horseradish sauce. The flexible Pouch Pack ketchup (a replacement for #10 tins) continued its sales gains, with a 31% increase in volume.

Product improvement and expansion were integral parts of our marketing effort in Fiscal 1988. A notable addition was room service size ketchup, a 2¼-ounce glass bottle designed for hoteliers. Responding to a 20% upsurge in fish consumption, Heinz launched its brand of tartar sauce, which consumers judged superior to its competitors in recent taste tests. We revitalized Henry J. Heinz's first product in the form of Horseradish Sauce, which immediately captured almost 10% of its market.

Heinz U.S.A. introduced an eight-variety line of Old Fashioned Pickles to match consumer interest in premium quality varieties. We produced five strained yogurts for babies in 1988 to capitalize on the practice of more than half of all parents to feed yogurt to their young children.

Weight Watchers continued its innovative efforts for calorie-counting consumers. A nine-flavor line of Weight Watchers à la Francais yogurt was introduced to West Coast markets. Two new frozen novelties — Chocolate Mousse on a Stick and Chocolate Dip Bar — received national acclaim and helped register a 13% increase in volume for the line. Weight Watchers Grand Collection offered dieters a premium ice milk in eight

flavors. Twelve products were added to the Central Location Line, which brings 45 dry grocery items together in a single display unit in supermarket diet sections.

Star-Kist maintained its solid position as the leader in the tuna market. Together with the company's Breast O' Chicken brand, Star-Kist enjoys a 37% market share, a figure substantially higher than that of its nearest competitor. Star-Kist held its lead in the face of depressed tuna sales resulting from higher prices generated by a reduced availability of raw fish.

In France, Star-Kist's Ets. Paul Paulet subsidiary introduced a new line of convenience foods containing tuna and sardines.

Anticipating the elimination of trade barriers among European Community countries in 1992, Heinz acquired the popular "Marie Elisabeth" trademark and two canneries from Judice Fialho, Portugal's leading exporter of branded sardines. This will enable Heinz to begin production of sardines in Portuguese facilities, considerably expanding its market and profit potential.

Star-Kist pet foods continued their strong performance in this ever-expanding area. The increasing popularity of cats created intense competition in the cat foods category, but our 9 Lives and Amoré brands proved durable favorites, with over 29% of that growing market.

All of Star-Kist's national pet foods brands have shown strong sales growth in Fiscal 1988, with four of those brands registering double-digit gains. 9 Lives canned, Amoré, Jerky Treats and Meaty Bone registered sales volume records.

Specialty niches within the pet foods market attracted new product formulations. To serve the 23% of cat owners who feed their pets treats, 9 Lives developed the Finicky Bits brand, which took 21% of the $32 million cat treats category. Dog lovers were not forgotten, as additional varieties and sizes of Jerky Treats and Meaty Bone arrived on the dynamic dog treats market, which is now at almost $370 million.

The advent of presidential elections brought Morris the Cat into the national limelight with advertising based on his candidacy for the country's highest office.

Significant acquisition activity in Fiscal 1988 offered the promise of substantial market return for Star-Kist's pet foods operations, both feline and canine. Champion Valley Farms was acquired from the Campbell Soup Company, extending the reach of our dog foods business with the Recipe brand distributed along the East Coast. By adding the Mavar group of companies of Biloxi, Mississippi to the Heinz family, we gained a major presence in the price-value cat foods category with the Kozy Kitten brand. The acquisiton of California Home Brands brought with it a large private label canned pet foods business, plus Skippy and Vets branded dog foods and Petuna brand cat foods.

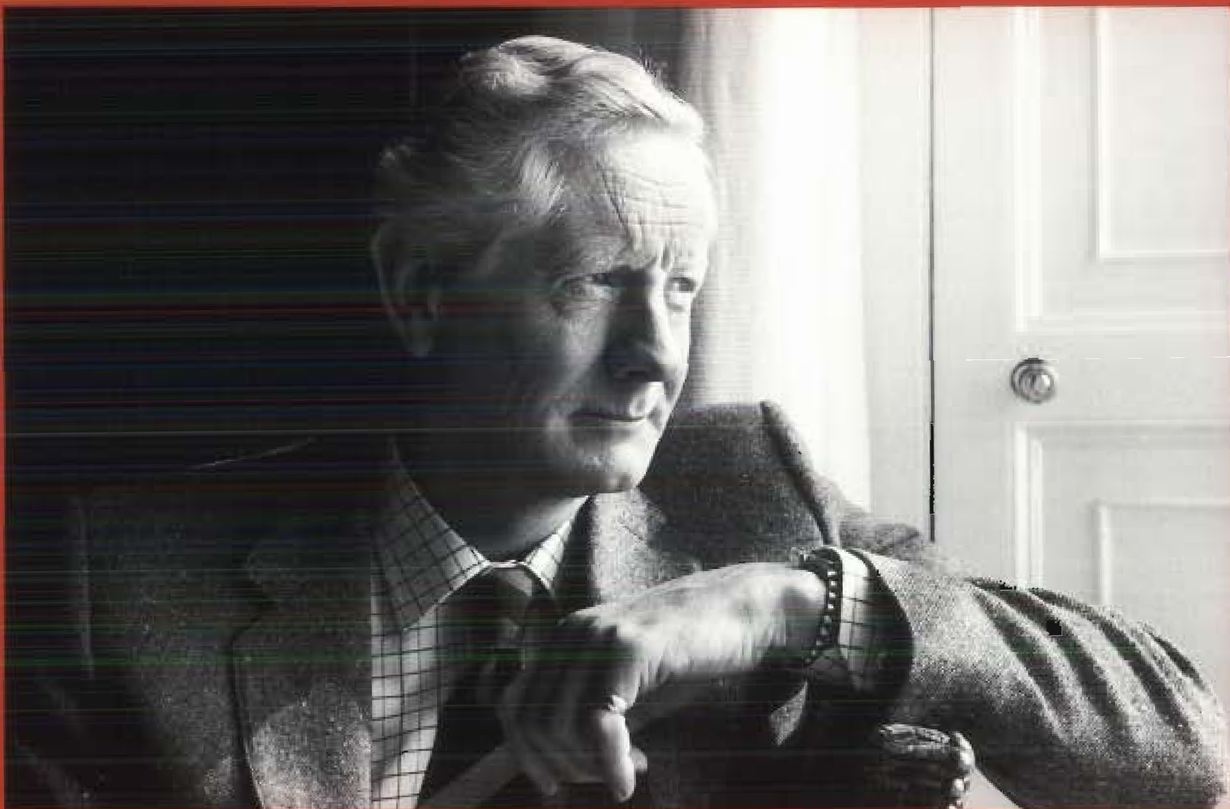
Ore-Ida made major quality improvements in french fries, hash browns and Tater Tots shredded potatoes, all focusing on texture, crispness, flavor and reduced preparation time. Convenience and microwave cooking continued to occupy the attention of Ore-Ida's product developers. Inspired by the initial success of Toaster Hash Browns, Ore-Ida expanded its distribution into the entire U.S. and added onion and Western-flavored varieties. Market shares for the company's microwave product lines continue to grow, as consumers find microwavable fried potatoes an appetizing addition to their dining fare.

Mindful of opportunities in the foodservice area, the company introduced Crispy Bakes, a fried potato product designed for oven preparation in schools.

An especially exciting prospect for Ore-Ida was the acquisition of a safe and innovative process for making hot, tasty french fries in a vending machine. Ore-Ida Vended Products, Inc. will test, develop and market this technology, which should bring delicious fries to an enormous market previously untapped by Heinz.

Foodways National successfully expanded the number of its Weight Watchers frozen entrees and desserts. In a market driven by an insatiable consumer desire for variety, new products generated nearly 15% of Weight Watchers frozen foods sales in 1988.

Weight Watchers frozen entrees continued an astonishing growth rate, increasing 28% over last year. After four years of consistent share increases, these entrees now stand on



Ambassador of Growth.

R. DEREK FINLAY, SENIOR VICE PRESIDENT-CORPORATE DEVELOPMENT

New markets, acquisitions, new financing methods, opportunities too long neglected, new sources of supply, freshly minted technologies — these are the driving forces that thrust Heinz into new operations around the globe.

The senior executives who carry the burden of planning and managing international operations are men with wide horizons. Their broad experience helps them cope with foreign languages, alien psychologies, strange business laws and customs, not to mention the special conditions of foreign financing. They must find, train and hold qualified native managers in the host country. Yet, these ambassadors of growth are responsible at World Headquarters for those unbending measures of corporate performance, the familiar languages of profit, loss and adequate return on investment.

Of the globetrotters at Heinz, Derek Finlay is one of those who effectively does business with ease across hemispheres and time zones. One of eight members of the Executive Committee, Finlay's formal title — senior vice president, corporate development — hardly does justice to his intertwined responsibilities. Reporting to him are the heads of three key departments: technical development, corporate planning and organization development. On top of all that, he has supervisory authority over Heinz's promising new enterprises in the Republic of Korea, the Kingdom of Thailand and the People's Republic of China.

Traveling in tandem with Finlay, one gets a lesson in the virtues of a global company led by people of varying cultural and national backgrounds. Tony O'Reilly has an Irish heritage, Karl von der Heyden is a Berliner, Derek Finlay was born and educated in Britain. All three are cultural pragmatists who embrace the values of the enterprise system, shun ideology, yet understand why regions and nations can have vigorously different outlooks on life and work and society. Though he likes to call himself a generalist, Finlay in fact is a patient and insistent practitioner of good management. He has a fierce competitive drive, an acute sense of timing and the ability to organize effectively.

When Finlay came aboard as head of corporate development, Heinz had just completed an intensive review of investment potential. Analysis showed that business everywhere had outgrown national boundaries, and that some 85% of the world's population had not been exposed to a Heinz brand. A more pragmatic consciousness in the developing nations — especially those around the Pacific Basin — was leading to the kind of demographics and consumer cultures that looked promising for new ventures.

Finlay is the first to say that the Pacific Basin investments do not carry the big wallop of an express train roaring through a country station. Nevertheless, in 15 years or so, the region will probably account for a quarter of the world's GNP, an astonishing number. By one measure, the region is growing at the rate of $3 billion a week, which makes Heinz's presence in Japan, China, Thailand and South Korea look prescient. Walking through the Asian open door is a turning point with the prospect of big rewards.

Robert Derek Finlay: SENIOR VICE PRESIDENT - COPORATE DEVELOPMENT, SINCE 1981; b. LONDON, ENGLAND, MAY 16, 1932; ed. B.A. AND M.A., EMMANUEL COLLEGE, CAMBRIDGE U.; LT. IN REGULAR ARMY WITH GORDON HIGHLANDERS IN MALAYA, 1950-52, AND AS CAPT. IN TERRITORIAL ARMY, 1952-61; MANAGEMENT TRAINEE AND INDUSTRIAL MARKETING REPRESENTATIVE, MOBIL OIL CO. LTD.; ASSOCIATE, McKINSEY & CO. INC., 1961-67; PRINCIPAL, McKINSEY & CO. INC., 1967-71; DIRECTOR, McKINSEY & CO. INC., 1971-79; MANAGING DIRECTOR, H. J. HEINZ COMPANY LTD., HAYES PARK, ENGLAND, 1979-81; MEMBER: AMERICAN ASSOCIATES COUNCIL AT TEMPLETON COLLEGE, OXFORD U., SCOTTISH COUNCIL DEVELOPMENT AND INDUSTRY, 1979; TRUSTEE: MERCY HOSPITAL, PITTSBURGH; DIRECTOR: U.S.- CHINA BUSINESS COUNCIL, U.S.- KOREA BUSINESS COUNCIL, WORLD AFFAIRS COUNCIL, PITTSBURGH PUBLIC THEATER.

A Talent for Timing.

PAUL I. CORDDRY, SENIOR VICE PRESIDENT

Heinz managers are refreshingly different. Without seeming ritzy to an outsider who's curious about what makes them tick, they tend to be unabashedly brainy, boundlessly ambitious and aggressive, alert not only to the market but also to the larger society in which they live. They are also self-critical, a bit dissatisfied with the way things have been traditionally done, receptive to new ideas and committed to run their product lines and businesses in the most logical and scientific ways possible. There is a "try-anything" brashness in their management approach that distinguishes them from their counterparts in many other food companies. Nothing hems them in, neither geographic location, nor time-honored operating practices, nor a rigid organizational structure.

There is a fan club in the food industry that is dazzled by the way Heinz persistently creates and successfully sells new products in response to marketing opportunities. What Paul Corddry (aided by other decision-makers like J. Wray Connolly and Gerald Herrick) accomplished in Boise, where he was president and chief of a Heinz subsidiary, is one example of a stunning marketing achievement. Corddry's team created the leading national brand of frozen french fries — Ore-Ida — from a small common or garden commodity business that was acquired for just $20 million.

Ore-Ida's transformation became a turning point at Heinz. Recognizing the potential market was one thing. But, the marketing of Ore-Ida required a totality of effort in research, development, package design, distribution and selling. To ensure that it was not outflanked, Ore-Ida relentlessly stacked supermarkets and retail outlets with variations of frozen potatoes. These product extensions enlarge the total market by fragmenting it and by appealing to consumers who have special preferences. Microwavable and low-calorie potatoes are appearing on the retailers' shelves. And there is a carefully watched test underway of french fries to be sold through vending machines.

Corddry likes to point out that, worldwide, Heinz now sells 34 products that are number-one in their respective national markets. A decade ago, most people might have identified Heinz as a leader in a few product categories — ketchup and tuna in the U.S. and beans in the U.K. But in recent years the Executive Committee set out to synchronize the firm's diverse skills and resources, and aimed with blowtorch intensity to become the industry's lowest-cost producer. Intra-company task forces were grouped together to inquire skeptically into established practices of all kinds. It was this extra assertiveness that set the stage for marketing efforts unparalleled in the company's history.

Over the last several years, Corddry, like other area senior vice presidents, supervised a broad geographic and product segment of Heinz operations. At that management level, the magnitude of the global changes in the food industry takes shape with dramatic vividness.

Paul Imlay Corddry: SENIOR VICE PRESIDENT, SINCE 1986; b. SNOW HILL, MARYLAND, SEPTEMBER 13, 1936; ed. B.S., SWARTHMORE (PENNSYLVANIA) COLLEGE/M.B.A., U. OF CHICAGO; PRODUCT MARKETING, PROCTER & GAMBLE, CINCINNATI, 1960-64; PRODUCT MANAGER, H. J. HEINZ COMPANY, PITTSBURGH, 1964-66; GENERAL MANAGER OF PRODUCT MARKETING, ORE-IDA FOODS, 1966-71; VICE PRESIDENT OF SALES AND MARKETING, ORE-IDA, 1971-75; EXECUTIVE VICE PRESIDENT, ORE-IDA, 1975-77; PRESIDENT, ORE-IDA, 1977-86; NAMED IN OUTSTANDING YOUNG MEN OF AMERICA, 1969; PRESIDENT (1980): FROZEN POTATO PRODUCTS INSTITUTE; CHAIRMAN (1983): AMERICAN FROZEN FOOD INSTITUTE.

the threshold of category leadership. The company entered a new market with the creation of Weight Watchers Mexican entrees. This clever combination of convenience, low calories and regional taste quickly made the line dominant in its category and accounted for almost 20% of the sales of Weight Watchers frozen entrees.

Shipments of Weight Watchers frozen desserts jumped 18% ahead of Fiscal 1987, scoring 10 straight months of share growth and outperforming all competitors. Chocolate mousse sales soared 135% over the previous year and strawberry cheesecake grew 18%. A poll of 2,000 consumers voted Weight Watchers frozen desserts the best diet food of 1987.

The gradual reversal in the decline in American beef consumption bodes well for the company's Steak-Umm brand of frozen sandwich steaks. The brand leader with a 65% share of its category, Steak-Umm significantly slowed its drop in sales volume and began limited distribution of Steak-Umm Quick Strips.

Weight Watchers International launched the Quick Success Program to replace its highly popular Quick Start Program. Features of this revised food plan include faster weight loss and simplified program materials. Enrollments since the introduction of Quick Success are 30% higher than the previous year.

The Weight Watchers At Work Program completed its third year. Flexible programs for working people generated over 195,000 enrollments.

Cardio-Fitness Corporation increased membership at its centers by 12%, with a growing proportion of corporate clients.

The United Kingdom began a Quick Start Plus Program and France inaugurated its *Depart Rapide* in 1988. Enrollments at these locations are 30-40% higher than last year. On both sides of the Atlantic, attendance at Weight Watchers meetings reached historic levels, confirming the enduring success of the company's basic approach to weight reduction.

The Hubinger Company employed ion-exchange technology to improve its corn syrup, giving it lower sodium content, a more appealing color and longer shelf life.

Heinz-Canada took bold steps to ward off competitive pressures and, in the process, achieved unmatched dollar sales and market share levels. Heinz baby foods continue to dominate the Canadian market with a nearly 95% share, the highest recorded level in the brand's long history. Infant cereal captured a historic 56% market share. Heinz's share of the national tomato juice market climbed to 44%, an all-time high. Barbecue sauce also reached new records, increasing its share to 26%. While Weight Watchers frozen entrees and salad dressings posted modest increases, frozen baked desserts achieved a 49% share following their introduction just 15 months ago.

Heinz-Canada built on its marketing successes in the vegetable juice category with the debut of Heinz Vegetable Cocktail. It also offered popular tomato juice in 48-ounce plastic bottles and added a 750-milliliter squeezable container for ketchup. Homestyle chili sauce and Cajun barbecue sauce brought spicy regional flavors to Canadian consumers.

Eager to take advantage of its country's expanding foodservice trade, Heinz-Canada acquired Pro Pastries, Inc. which, like its American affiliate, Pro Bakers Ltd., is a highly respected producer of frozen unbaked pastry products for sale to fast-food and take-out pastry chains.

Britons responded enthusiastically to Heinz-U.K.'s beans, soups and pastas during Fiscal 1988. Aided by the launch of the Bean Street Kids brand, a tasty variation for younger consumers, Heinz boosted its share of the large British bean market from 49% to 55%. Increasing interest in healthier eating and dietary fiber led Heinz-U.K. to offer a line of soups for nutrition-conscious consumers under the Wholesoups brand. This, in tandem with a reformulated Special Recipe brand, earned Heinz canned soups 60% of their market.

The Weight Watchers brand has enjoyed dramatic growth in the U.K. since its introduction in 1986. Weight Watchers sales have tripled in two years. Product launches have included soups, salad dressings, cheeses, dairy spreads, ice creams, breads and rolls.

Economic growth, diminishing inflation and concern for product safety gave a welcome assist to the efforts of Heinz-Italy to promote its baby foods and dietary-therapeutic products. Plada, Heinz-Italy's food processing company, initiated its "environmental shield," a rigorous quality control concept designed to assure the purity of its foods. Such an assurance is important to European consumers, whose supplies of fresh produce and meats recently suffered chemical and nuclear contamination. Plada's strained baby foods overwhelmed the competition with a 93% market share. Baby cereals increased their share to 38%; baby juices improved sales volume by 8%.

Plada's Misura brand represents the most complete adult health-food line on the Italian market. Unleavened whole-wheat crackers boosted volume by more than 11%, and biscuits reached a record market share of 21%. Misura's artificial sweeteners surpassed last year's record.

Heinz-Italy's oldest confectionery business, Sperlari, kept pace with rapidly changing consumer tastes, creating candies for an expanding number of self-service outlets. Gnammy, the latest addition, was extremely well received and increased that line's volume by 38%.

As with Italy, the companies managed by Heinz's Central European office enjoyed the benefits of low inflation and declining unemployment rates. In West Germany, salads were the focus of new product initiatives by our Nadler affiliate. A line of 13 specialty salads with improved recipes was launched and five low-calorie salads were introduced under the Weight Watchers brand.

Spagheroni, a brand of tomato-based sauce with Italian spices, made major gains in Belgium and the Netherlands, where it reached market shares of 60% and 52% respectively. French, Belgian and Dutch consumers, who prefer condiments with extra spices, were treated to Mexican ketchup, a special line extension aimed at stretching the market.

The Iberian peninsula saw increasing Heinz activity, as IDAL, our Portuguese subsidiary, took advantage of that country's increasing involvement in the European Community. Each of IDAL's tomato products scored impressive gains, with market shares ranging from 36% for tomato paste to a commanding 68% for ketchup.

Heinz added Spain to its Iberian operations with the acquisition of Orlando, the country's brand leader in *tomate frito,* a spiced tomato sauce. Orlando promises to play a significant role in making Heinz the lowest cost producer of tomato products in Europe.

Heinz-Australia found its profit margins squeezed by a mixture of regional price controls and stubborn inflationary pressures. The company withstood heavy competition to maintain its leading market shares in beans and spaghetti. Its baby foods now hold 80% of the market. Heinz-Australia edged up its share of the canned soups market to 54%.

Heinz-Australia sold its Stanley Wine Company and Robs Restaurants.

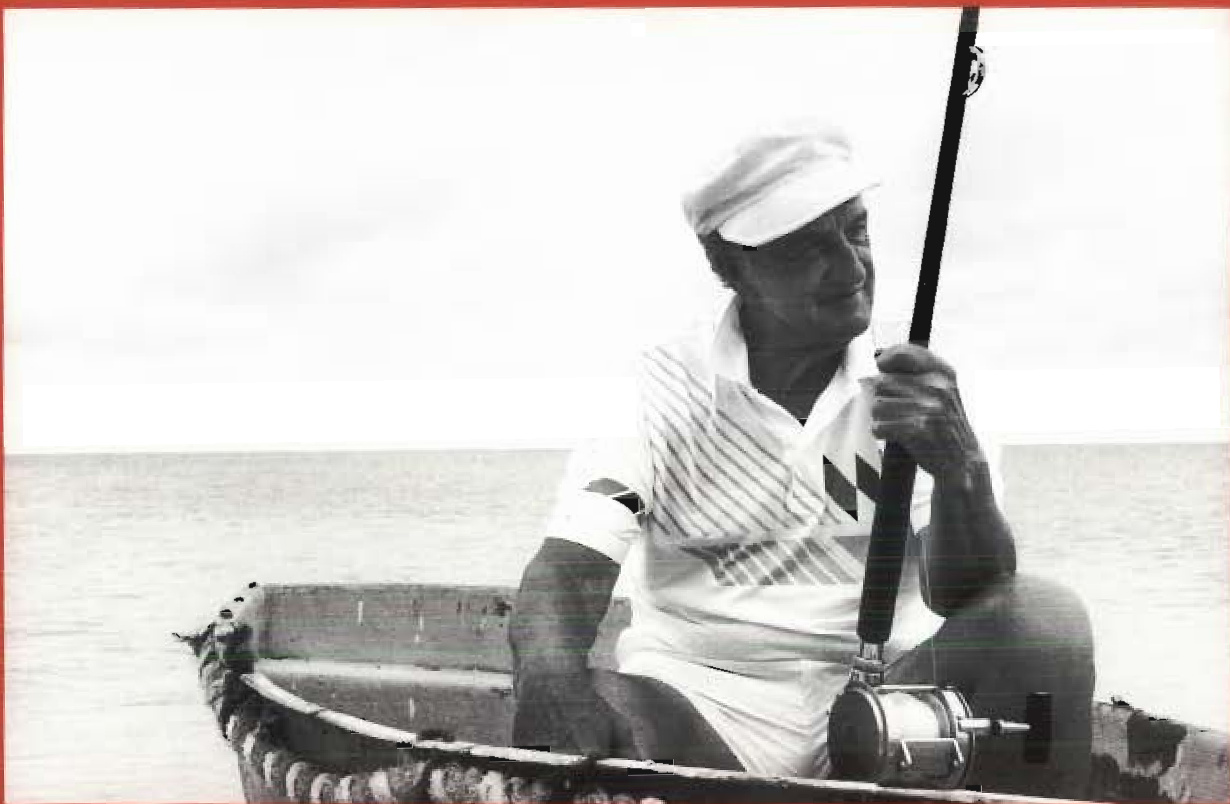
Heinz-Japan profited from the strong yen and a historically low interest rate. These economic conditions, together with the company's own LCO measures, enabled Heinz-Japan to earn three times its 1987 net profit. After only two years in distribution, Ore-Ida attained the leading position in the Japanese frozen potato market. Heinz introduced a line of cooking sauces under the "Chef Saucier" label for consumers who enjoy exotic recipes.

Heinz-Japan continued to make inroads into the pet foods market, following the May 1987 nationwide launch of its canned dog foods and dry cat foods.

Seoul-Heinz Ltd., our recently formed joint venture in South Korea, blossomed this year, launching the manufacture of Heinz ketchup, mayonnaise, margarine and corn oil. After four months, market share in Seoul reached approximately 8% for ketchup and mayonnaise. A unique creation of Seoul-Heinz is ketchup in soft plastic tubes.

Bangkok joined our expanding list of Asian outposts with our joint venture, Heinz Win Chance Limited. The company's major products are a line of flavored milk powders sold in Thailand and exported throughout Southeast Asia.

Heinz-UFE Ltd. received recognition from the government of the People's Republic of China for contributions to improving nutrition among the six million children of Guangdong Province. Heinz's



Why It Pays to Go Fishing.

JOSEPH J. BOGDANOVICH, SENIOR VICE PRESIDENT

On the north wall of a living room in a home south of Los Angeles hangs a sepia-tinted photo of a wiry young man standing on the sunny deck of the Olympic, a 300-ton fishing boat en route from San Pedro to Panama. He is familiarly holding a long, heavy bamboo fishing pole and wearing an easy smile that accurately implies, "here's an expert having fun." The date is 1931. The crew member is 19-year-old Joe Bogdanovich. The purpose of the trip is to track the movement of elusive tuna through distant waters and collect a full share of the catch to boot.

Today, that pioneer is the redoubtable chairman of Star-Kist Foods, Inc., a marketing leader in canned tuna and pet foods. Within Heinz, Joseph J. Bogdanovich is a source of provocative vision and entrepreneurial shrewdness.

Joseph J Bogdanovich

"A man's style should be like his dress; it should attract as little attention as possible." If the name Bogdanovich does not pop up on your list of top ten business pioneers, that's because the family likes to be judged by deeds alone. Founding father Martin, who arrived in southern California from Yugoslavia in 1908, added an immense source of protein to America's diet with a simple discovery. By using crushed ice to preserve a tuna catch, he extended the range of California fishing boats into the deep, rich waters of the Pacific.

In direction and spirit, his son Joe is another sort of pioneer. He shaped the contemporary worldwide business by adding to fishing and fisheries the then revolutionary dimensions of global supply, product marketing, operations research, control engineering and management science in general. Today, thanks in large part to Bogdanovich methods, tuna occupies a prominent place in world seafood consumption. With tuna sandwiches and salads everyday fare, U.S. consumption accounts for more than a third of the global tuna catch. Star-Kist's world extends to such places as Puerto Rico, France, St. Lucia, American Samoa, the Reunion Islands, Ghana, the Ivory Coast, Mauritius, New Brunswick, Portugal and Australia.

A company that stayed ahead of the pack by being tough and thrifty, Star-Kist was a turning point when acquired by Heinz in 1963. Pet foods, started as a spinoff to tuna packing, were about to go spinning into their own cultural orbit. To Charlie the Tuna, the aquatic symbol of Star-Kist, was added the enigmatic presence of Morris the Cat and his 9 Lives. The combined resources of Heinz and Star-Kist, plus a number of strategic acquisitions, resulted in a multiplicity of brands and products targeted at the finicky owners of America's favorite pets. Half of America's households in total own some 50,000,000 dogs and 47,000,000 cats. Pet foods, as Bogdanovich says, have exciting foreign dimensions, too.

A slender and still wiry man, capable of immense personal charm either in the office at Star-Kist headquarters in Long Beach, California, or away from business, Joseph James Bogdanovich likes to play the role of the interrogatory leader. Whether as a member of Heinz's Executive Committee, chairman of Star-Kist or chairman of Heinz-Japan, he astutely ricochets the right questions and expects quickly to get the right answers. A focus on efficiency is all the sharper because the Bogdanovich family is a close-knit clan that ranks among the biggest individual owners of Heinz stock. As far as Bogdanovich is concerned, the economic power and social mission of a food supplier can be no greater than the sum of its parts. In the case of Star-Kist, continuous availability of fish from ocean sources and collection points around the world is essential to the company's longevity and market leadership.

Joseph James Bogdanovich: CHAIRMAN OF STAR-KIST FOODS, INC. AND SENIOR VICE PRESIDENT, SINCE 1979; b. SAN PEDRO, CALIFORNIA, MAY 9, 1912; ed. U. OF SOUTHERN CALIFORNIA, 1930-34; WITH STAR-KIST FOODS, TERMINAL ISLAND, CALIFORNIA: MANAGER, 1934-36; GENERAL MANAGER, 1937-40; ADMINISTRATIVE ASSISTANT TO PRESIDENT, 1941-44; PRESIDENT AND CEO, 1944-75; SENIOR VICE PRESIDENT OF H. J. HEINZ COMPANY AND CEO OF STAR-KIST, 1972-79. MEMBER: NATIONAL CANNERS ASSOCIATION, TUNA RESEARCH FOUNDATION, YUGOSLAVIAN-AMERICAN CLUB.

Here Comes Another World.

RICHARD B. PATTON, SENIOR VICE PRESIDENT

In Harare, the capital of Zimbabwe, Richard B. Patton must have seemed at first like a rare species of business adventurer shooting for the moon. An area vice president, whose responsibilities include Heinz operations in Canada and Australia as well as Weight Watchers International, Patton, back in 1982, was assigned responsibility to initiate operations in Africa. At a time when lots of American private investment was going where the going seemed safest, the presence of management talent of such caliber 8,000 miles from company headquarters was unusual indeed.

Dozens of visits later, Patton had proved, by deed as well as word, that Heinz's commitment to building its presence in developing countries is deeply rooted and deeply satisfying to all hands. Here it is only six years after Patton, the Yale and Harvard educated ex-Marine, first sat down for afternoon tea with directors representing the government in Harare. Already Patton is talking about ways of developing Olivine Industries, the joint Heinz-Government venture that evolved from that meeting, into a multinational firm capable of undertaking additional developments and investments in Zimbabwe and other African countries.

A look at Olivine's scorecard shows why such a landmark turning point can be contemplated. Sales have more than doubled, as have profits. Production of edible oils, fats, margarines, soaps, candles and protein meals for animal feed are up substantially, not least because of the introduction of state-of-the-art machinery. Exports are up 1,500%, directed to new markets in Europe, as well as in Africa. Agronomists and market specialists tell Patton there may be more openings ahead for agricultural commodities. And Heinz World Headquarters is getting payback on its investment.

Heinz's joint venture in Zimbabwe provides over 1,500 jobs, rising incomes for local workers, increasing tax revenue for government and, perhaps more important, local involvement in management. Just taking part in what is a familiar proposition in Western business – making the case for or against new investment – is the sort of thing that's downright revolutionary to anyone in places where government price controls and centralized allocation of resources are commonplace.

As Patton nicely puts it, by hosting a relatively small project measured by world standards, but a big one by Zimbabwean measurement, Heinz is finding that it's possible to establish an island of promise in the middle of what can be to its inhabitants a world of limited opportunity.

Implicit in Zimbabwe's welcome of Heinz investment is the realization that big corporations can be the major repository of some rather special capabilities that the emerging world desperately requires, but does not have. Experienced executives like Dick Patton often have that special close-quarters knowledge that enables them to visualize business building opportunities not easily seen by local managers.

The developing world is too big and too poor for people of conscience to pass by without resolving to aid in its transformation. And the best way to do that, according to Olivine Managing Director Douglas N. Dibb, is to activate the mechanism of private enterprise through perseverance, partnership, pragmatism and patience. What people in emerging nations want is for their government not to develop national personalities, but to join the modern world and become a contributing part. That's something infinitely desirable, promising fuller stomachs and fuller lives.

Richard B Patton

Richard Bolling Patton: SENIOR VICE PRESIDENT, SINCE 1980; b. PITTSBURGH, PENNSYLVANIA, JANUARY 8, 1929; ed. B.A., YALE U./M.B.A., HARVARD U.; 1ST LT. U.S. MARINE CORPS, 1954-58; PRODUCT MARKETING, HEINZ U.S.A., PITTSBURGH, 1958-62; ACCOUNT EXECUTIVE, OGILVY & MATHER, NEW YORK CITY, 1962-64; GENERAL MANAGER OF MARKETING, H. J. HEINZ COMPANY AUSTRALIA LTD., DANDENONG, 1964-66; ASSISTANT COMMERCIAL VICE PRESIDENT, OGDEN CORPORATION, NEW YORK CITY, 1966-68; VICE PRESIDENT OF PASSENGER SALES PROGRAMS, TWA, NEW YORK CITY, 1968-70; PRESIDENT OF NORTH AMERICAN OPERATIONS, CUNARD LINES, LTD., CUNARD/TRAFALGER HOTELS, NEW YORK, 1970-73; VICE PRESIDENT OF MARKETING AND SALES, HEINZ U.S.A., PITTSBURGH, 1973-74; PRESIDENT, HEINZ U.S.A., 1974-80; DIRECTOR, PENNSYLVANIA ECONOMY LEAGUE, PITTSBURGH SYMPHONY; MEMBER: AFRICAN-AMERICAN INTERNATIONAL ADVISORY COUNCIL; TRUSTEE: AFRICAN-AMERICAN INSTITUTE.

Instant Nutritious Rice Cereal and Instant Nutritious Hi-Protein Cereal earned endorsements from three Chinese industry and medical associations as recommended baby weaning foods.

Juice Drinks, based in Pittsburgh, was forced to reduce packaging and ingredient costs to combat high inflation and declining living standards in its marketing areas. It holds substantial leads in the fruit drinks markets of Mexico, Puerto Rico and Venezuela.

Alimentos Heinz, our Venezuelan subsidiary, recorded the best year for sales and profits in its history, despite inflationary pressures. Sales volumes for spaghetti sauce, Worcestershire Sauce and 57 Sauce all increased by more than 30%.

Our Caribbean Restaurants subsidiary responded to the tastes of dieters by including four pre-packed salads on the menus for its Burger King outlets.

Olivine Industries expanded its export markets in Africa by increasing oil and margarine sales to Botswana, selling oil and soap to Mozambique and soap to Zambia. Olivine also established markets for protein meals in Kenya, Zaire and Uganda. The Zimbabwe-based subsidiary scored an instant success at home with the introduction of a one-kilogram pack of its popular Buttercup brand margarine, a size suited to the needs and budgets of large families.

We extended operations in Africa with the acquisition of Kgalagadi Soap Industries of Gaborone, Botswana, that nation's sole producer of toilet and laundry soaps.

FACILITIES

Just as the future is born of the present, Heinz's future productivity flows from the addition or replacement of factories and equipment. Continuing modernization of all facilities is a mandate made ever more urgent by the low cost operator program. Throughout the global Heinz enterprise, capital investment and technical advancement yielded cost savings and greater quality. Capital expenditures during Fiscal 1988 totalled $238.3 million, a 29% increase over last year.

Heinz U.S.A. consolidated several of its operations, phasing out factories in New Paltz, New York and Sibley, Iowa and expanding facilities in Leominster, Massachusetts, where it is building a 56,000-square-foot addition.

During Fiscal 1988, Heinz U.S.A.'s Pittsburgh factory carried out a multimillion-dollar project to automate single-serve pouch systems. The company made two major investments at the Fremont, Ohio plant. One doubles production capacity for tomato products, leading to an annual savings of $400,000, while the other fully automates the factory's ketchup-making process.

Heinz U.S.A. developed a more efficient transportation system for hauling tomatoes, enabling it to compensate for poor weather in the Midwest with abundant harvests from the West Coast.

The growth of its West Coast ketchup business, plus the advent of Heinz's room service size ketchup, necessitated a pair of important investments at the Tracy, California facility. The factory added a filling line for new, smaller bottles and installed state-of-the-art vinegar generating equipment.

Consolidation and increased production were the forces behind capital improvement efforts at the Holland, Michigan facility. Equipment was transferred from the closed operation in Winchester, Virginia and installed at Holland, along with new vinegar generating equipment.

Star-Kist completed its $10 million expansion program initiated several years ago in American Samoa, making the facility the world's second largest tuna plant, with a daily raw fish packing capacity of 900,000 pounds.

Along with the acquisitions of Champion Valley Farms, the Mavar companies and California Home Brands, Star-Kist commenced a major expansion at Champion Valley Farms' Bloomsburg, Pennsylvania factory. Plans are underway to enlarge the Mavar factory at Biloxi, Mississippi to accommodate production of 9 Lives cat foods. These additions offer substantial cost reductions in ingredients and distribution. Star-Kist Caribe furthered our LCO efforts in Puerto Rico by consolidating its original five low-speed pet foods lines into two high-speed operations.

Star-Kist Canada installed a gas chromatograph to verify tuna quality, an unprecedented application of such chemical testing as a routine quality assurance procedure.

Ore-Ida purchased a new building in Boise, Idaho to house the main offices of Foodways National and Gagliardi Brothers Inc. The Ontario, Oregon factory expanded its corn processing capabilities, enabling a 25% increase in corn-on-the-cob production. At the Plover, Wisconsin plant, Ore-Ida upgraded its Toaster Hash Browns production line, doubling its capacity.

French fry vending machines hold enormous promise for consumption of Vend Fry, Ore-Ida's custom-designed product. To accommodate the product's unique size and ingredients, Ore-Ida modified the prime foodservice production line at its Plover factory.

Ore-Ida added a paperless, computerized communication system to its ordering program, converting 70% of its volume to computer-to-computer order entry. This means a significant advance in efficiency, eliminating thousands of phone calls and mountains of forms.

Foodways National used computers to streamline quality control operations, and undertook a series of measures that led to a 29% boost in productivity and a 35% increase in volume at its Massillon, Ohio plant. Improvements in processing and packaging at Foodways' Wethersfield, Connecticut factory are expected to yield annual savings of $365,000.

The Gagliardi facility in West Chester, Pennsylvania added a process line for the manufacture of Steak-Umm Quick Strips, its newly introduced sandwich steak.

The Hubinger Company began construction of a $15 million fuel ethanol production center at its Keokuk, Iowa plant. The facility, slated for completion in 1989, will produce more than 11 million gallons per year. Blends of gasoline and ethanol currently represent approximately 8% of the total U.S. gasoline market, with demand growing steadily.

Weight Watchers International increased its North American meetings by 11%, extending its accessibility even further by now offering over 17,600 sessions each week. The total number of Weight Watchers classes in European company-owned locations rose 4% to more than 5,500 weekly meetings.

The flagship center for Cardio-Fitness Corporation, located at New York City's Rockefeller Plaza, celebrated its 10th anniversary in 1988. It remains a bustling operation with over 1,800 members. Cardio-Fitness opened three new centers during the year, including one in a Chicago hotel.

Ever-increasing growth in the red juice market and Heinz-Canada's leadership in tomato juice sales put impossible pressure on existing seasonal equipment. Accordingly, Heinz-Canada invested in additional machinery to manufacture red juice products.

Heinz-U.K. began construction of a pasta production center, capable of an annual output of 30 million dozen cans of beans, soups and pastas. The lines, among the most modern in the world, are highly automated and work at speeds of up to 850 cans per minute.

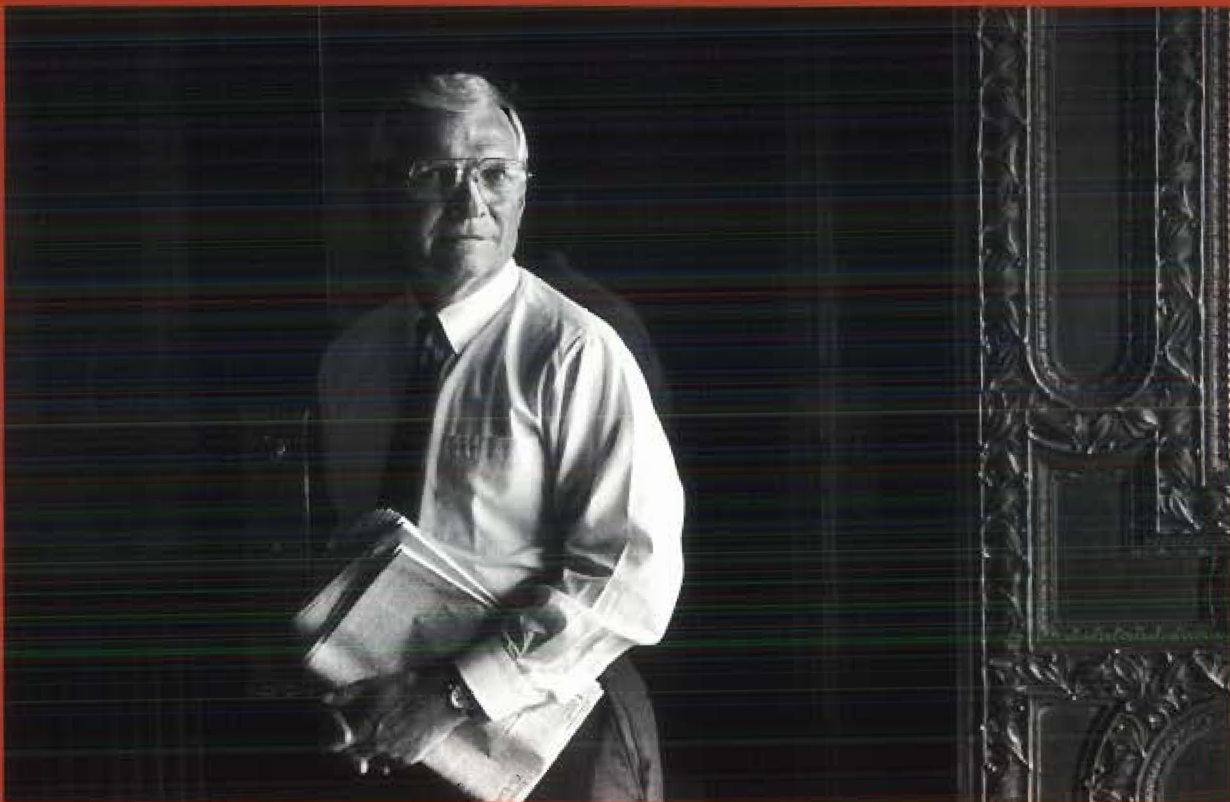
Plada's Latina factory in Southern Italy began designing expanded facilities for strained baby foods. Following the example of the Milan factory, the Latina facility was equipped with sophisticated tools to measure residual radioactivity, thus furthering the cause of consumer safety.

Sperlari, located in Cremona, completed one of Heinz-Italy's largest capital projects in recent years: an automated warehouse that is revolutionizing the company's order handling system. The warehouse — only the second of its kind in Italy — features a semiautomatic system that significantly aids Sperlari's LCO and customer service goals.

The Central European company incorporated office automation and doubled its computer capacity to obtain further efficiencies in production. The Elst facility in the Netherlands created a bacteriological laboratory for assuring product purity.

Our IDAL subsidiary in Portugal realized $600,000 in savings from new equipment that improves its tomato processing operation.

Extensive innovation in processing and packaging led to substantial savings for Heinz-Australia. The company completed the second stage of its computer-integrated services control project, upgraded its vegetable preparation line, installed a modern tomato process control system, and incorporated new cooking facilities and high-speed packaging



Common Sense Time in the Common Market.

J. WRAY CONNOLLY, SENIOR VICE PRESIDENT

J. Wray Connolly is a discriminating collector of antique clocks. A shrewd negotiator, a level-headed analyst, a lawyer by training, a veteran manager well-grounded in finance and operations, he got the bug for old time machines on occasional quiet weekends in Europe.

Connolly's European role is the latest in a series of many high-ranking management assignments, with previous service as corporate treasurer and at Heinz U.S.A., Ore-Ida and Hubinger that sharpened his leadership skills.

The mainspring of European business these days is wound up tightly in anticipation of major changes. For as Connolly says, this is an urgent time for building Heinz's position in Europe (and in the world). By 1992 the 12 nations of the European Community will merge into the developed world's biggest market with 320 million consumers from Britain, France, West Germany, Italy, Greece, Ireland, Belgium, Denmark, Luxembourg, the Netherlands, Spain and Portugal. "A world race against the clock," is the way Jacques Delors, president of the European Communities Commission, describes the creation of a continental market without borders.

A unified European market represents a fresh challenge and opportunity for Heinz. In a span when he had the operating managers of European businesses reporting to him, Connolly completed the acquisition of S. Orlando S.A., a Spanish firm that holds the leading brand position in tomato-based products. As it happens, 1992 is also the year Spain celebrates the completion of its seven-year transition towards becoming a full member of the EC, the opening of the summer Olympic games in Barcelona and the 500th anniversary of the discovery of America. Already Spain and Portugal together have formed an Iberian partnership, a market of 60 million with a boom mentality fostered by an economy growing three times as fast as any other in the enlarged European Community.

The potential of an integrated European market engages the Heinz imagination. When the company was hemmed in by national boundaries and restrictive laws governing food production and shipments, managers had to concentrate by and large on their national markets country by country. Now they are deeply committed to urgent joint action to apply opportunistically the benefits of being low cost operators in a market 50% bigger than the United States. You might say that Heinz knows Europe like a native. Into Britain in 1886, into continental Europe in 1958, the company has built businesses, headed by local managers, that in 1988 total $1.5 billion in sales and contribute 27% of worldwide operating income. To the eleven products that are now leaders in their respective European markets, Heinz adds another through the Orlando purchase.

By asking judicious questions, honed razor sharp by 27 years at Heinz, Connolly prompts analysis of all possible outcomes so that short-term benefits are compared with long-run costs, and the dilemmas that face a company on a continent with big and vigorous competitors are fully illuminated. Even though a full-blown Connolly working day might last from 6 a.m. through a working dinner, there is little time for looking at watches.

J. Wray Connolly, Jr.: SENIOR VICE PRESIDENT, SINCE 1985; b. PITTSBURGH, PENNSYLVANIA, JANUARY 8, 1934; ed. A.B., ST. VINCENT COLLEGE, LATROBE, PENNSYLVANIA/J.D., UNIVERSITY OF PITTSBURGH; LAWYER, H. J. HEINZ COMPANY, 1961-65; ASSISTANT SECRETARY, WORLD HEADQUARTERS, 1965-67; VICE PRESIDENT OF PLANNING & DISTRIBUTION, ORE-IDA FOODS, BOISE, IDAHO, 1967-73; TREASURER, H. J. HEINZ COMPANY, 1973-76; PRESIDENT, THE HUBINGER COMPANY, KEOKUK, IOWA, 1976-79; EXECUTIVE VICE PRESIDENT, HEINZ U.S.A., PITTSBURGH, 1979-80; PRESIDENT, HEINZ U.S.A., 1980-85; DIRECTOR: EYE AND EAR INSTITUTE OF PITTSBURGH, EYE AND EAR HOSPITAL, PRESBYTERIAN - UNIVERSITY HEALTH SYSTEM; TRUSTEE: UNIVERSITY OF PITTSBURGH; BOARD OF VISITORS: UNIVERSITY OF PITTSBURGH GRADUATE SCHOOL OF BUSINESS AND GRADUATE SCHOOL OF PUBLIC AND INTERNATIONAL AFFAIRS.

Law is a Whole New Ball Game.

S. DONALD WILEY, SENIOR VICE PRESIDENT, GENERAL COUNSEL AND SECRETARY

The post of General Counsel at Heinz is a highly demanding, often exhilarating and sometimes exasperating job of great responsibility. A man like S. Donald Wiley, who has the polished expertise acquired by working at the highest corporate level, is a master of his craft. As a senior vice president, a member of the Executive Committee and a director of the firm, he is deeply involved in strategic planning. At a time when the business environment has an unnerving tendency to be something different today from what it seemed yesterday, his astute decision-making and corporate advice are both crucially valuable elements in Heinz's collegial system.

S. Donald Wiley

Wiley's General Counsel office now supervises the work of 18 in-house lawyers. That's quite a turning point. The depth and scope of the legal department's work have changed in startling fashion from the era when Wiley joined the firm in 1956 as one of only three Heinz lawyers. Not only must the company handle the ponderous apparatus of government controls surrounding the food industry, but it also must deal with some earthy and uninhibited changes in corporate law. All across the U.S., legislators and bureaucrats, citizens and councilmen, academicians and students working for consumer organizations are putting the pressure on business.

A decisive role for Wiley's department is in the sound contemporary judgment of mergers and acquisitions. While government briefs and judicial opinions often show an impressive ability to relate old legal precedents to new sets of facts, these techniques are being outstripped by the increasing fluidity and accelerating complexity of the U.S. economy. Heinz's lawyers have to meticulously weigh the variables and contingencies, including the all-important factor of foreign competition, to reach a sound legal judgment and also to provide the intellectual framework for necessary objective economic opinion.

Wiley's analysis, therefore, must be tough and unbiased. After a thorough going-over by the legal team, perhaps only one acquisition in six is given the in-house green light. That ratio is in keeping with Heinz's philosophy that acquisitions are a rational and constructive response to the increasing liveliness of the market.

In everything they do, these in-house lawyers are people of character and independence who assess every proposition in the light of preserving and enhancing shareholders' rights. Wiley's staff includes specialists in such matters as nutritional labeling, toxicity, environmental and quality controls. The in-house legal team has to mirror the skill of government agencies and their experts, not least in the areas of mergers and acquisitions and corporate finance. Affiliates such as Star-Kist and Weight Watchers have company lawyers permanently assigned to the corporate staff. No outside law firm could perfectly understand the complexities that are inherent in the business goals of a company as large as Heinz.

Like all big corporations, Heinz retains a firm in Washington savvy in government relations. And, on occasion, it has hired special outside counsel for unusual assignments. But keeping legal affairs as much as possible in-house is an approach that Wiley prefers.

Whatever happens in a turbulent, litigious society, the Heinz legal department does things in an unflustered way on behalf of shareholders, with skill and thoroughness.

S. Donald Wiley: SENIOR VICE PRESIDENT, GENERAL COUNSEL AND SECRETARY, SINCE 1972; b. WILKINSBURG, PENNSYLVANIA, DECEMBER 4, 1926; ed. B.A., WESTMINSTER COLLEGE/L.L.B., UNIVERSITY OF PENNSYLVANIA; MEMBER, VARIOUS BAR ASSOCIATIONS; PRIVATE LEGAL PRACTICE, 1954-56; ASSISTANT DISTRICT ATTORNEY, ALLEGHENY COUNTY, PENNSYLVANIA, 1955-56; GENERAL COUNSEL, H. J. HEINZ COMPANY, 1965-70; VICE PRESIDENT AND GENERAL COUNSEL, HEINZ, 1970-72; MEMBER: GROCERY MANUFACTURERS OF AMERICA, WORLD AFFAIRS COUNCIL, AMERICAN SOCIETY OF CORPORATE SECRETARIES; DIRECTOR AND PAST CHAIRMAN: NATIONAL FOOD PROCESSORS ASSOCIATION; DIRECTOR: PENNSYLVANIA CHAMBER OF COMMERCE, WQED-METROPOLITAN PITTSBURGH PUBLIC BROADCASTING, INC; TRUSTEE: VIRA I. HEINZ ENDOWMENT, WESTMINSTER COLLEGE, FOOD AND DRUG LAW INSTITUTE; ASSOCIATE TRUSTEE: UNIVERSITY OF PENNSYLVANIA; BOARD OF OVERSEERS: UNIVERSITY OF PENNSYLVANIA LAW SCHOOL.

equipment. These measures should yield a yearly savings of approximately $560,000.

Heinz-Japan improved its production capacity and saved substantial energy through the installation of storage tanks, steam traps and a water supply pump.

With a festive ceremony, Seoul-Heinz Ltd. opened its factory at Inchon for the manufacture of a wide array of products, including edible oils, shortenings, margarines, ketchup, peanut butter, chocolate and dry soups.

Juice Drinks added a franchising arm to develop its business in new areas. A pilot facility to manufacture proprietary concentrates was installed in Puerto Rico.

Alimentos Heinz in Venezuela undertook the most ambitious expansion project in its history. The company invested in equipment to improve tomato processing and to produce rice cakes and banana pulp.

Zimbabwe's Olivine Industries purchased additional land opposite its Harare site and plans to build upon it a cleaning and sorting facility for home-grown Michigan pea beans. A rail siding and workshop at Olivine's factory will enable the company to increase cottonseed processing.

LAND AND SEA RESOURCES

Once again, California proved an unparalleled source of supply for Heinz U.S.A. Ideal rainfall and temperatures, combined with fertile hybrids, produced record tomato yields of superior quality. The volume of California tomato production was the highest ever, offsetting the shortfall in the Midwest caused by violent extremes in weather and heavy rainfall during the harvest.

Heinz U.S.A. expanded the direct delivery program for beef, chicken, frozen vegetables and apple concentrate. This eliminated the expense of cold storage and handling costs. Combining the purchasing power of Heinz U.S.A., Star-Kist and Ore-Ida helped to hold down the costs of corrugated cartons and labels.

Star-Kist netted substantial gains from international political agreements. The end of the U.S. embargo on Mexican tuna and tuna products provided Star-Kist access to fish caught by the large Mexican fleet. The South Seas Agreement between the United States and many of the South Seas island nations provided stability to that area and minimized the threat of seizure of U.S. tuna vessels.

Heinz-Canada overcame adverse weather conditions with a combination of resourcefulness and agricultural innovation. A shortfall of small cucumbers was alleviated through alternative sources of supply. Although heavy rains interrupted the tomato harvest, the yield of tomato solids was normal, due to the use of improved hybrids. The company's agricultural research program produced another, faster-maturing tomato hybrid that promises excellent commercial results.

Plada's purchasing efforts and livestock rearing operations were geared toward reinforcing the environmental shield concept.

The tomato harvest in Portugal proved sensitive to adverse weather conditions, yielding 25% less than the previous year. Our IDAL operation, however, recovered 20% more paste from its crop to help offset the shortfall.

Heinz-Australia maintained a close liaison with Star-Kist in support of its Greenseas tuna operation. This partnership ensured continuity of supply and optimum purchase prices during a volatile year in the tuna market.

Seoul-Heinz in South Korea now purchases tomato paste from Heinz U.S.A. instead of Taiwan, assuring a more consistent quality at a more favorable price.

Olivine Industries continued to cultivate white beans in Zimbabwe. Although a drought affected the crop, Olivine was able to export $1 million worth of beans to Heinz-U.K. The drought also reduced the availability of oilseeds. Soap and candle production was cut back as a result of reduced foreign exchange allocations.

PUBLIC SERVICE

The breadth of Heinz philanthropy and the diversity of its concern were reflected in the $4.9 million in grants made by the H.J. Heinz Company Foundation. Approximately 1,200 organizations received funds, $700,000 of which came in the form of contributions matching those made by some 1,000 employees.

A sampling of beneficiaries reveals a wide range of community involvement: Boise Family YMCA, Long Beach Civic Light Opera, University of Pittsburgh, Junior Achievement, Partnership for a Drug-Free America and many others. Foundation support is directed toward communities in which Heinz has a major presence.

Heinz U.S.A. likewise devoted substantial time and resources to worthy causes and charitable institutions. Now in its ninth year, the Heinz Baby Food Label Saving Program, assisted by matching donations from the H.J. Heinz Company Foundation, made contributions of more than $300,000 to 125 hospitals for children in the United States, Hong Kong and Bermuda.

The partnership between Heinz and the National Institute for the Food Service Industry scholarship program marked its 33rd year. More than 500 scholarships have been awarded to students of hotel and restaurant management.

Efforts to support secondary school education included the joint Heinz-USA TODAY EconAwareness Program and the Partnerships in Education program with David B. Oliver High School, located near the Pittsburgh factory.

In addition to a cash donation, Heinz U.S.A. served once again as a sponsor of the annual fund-raising auction for Pittsburgh's public television station, WQED. In-kind contributions from the company helped stock the shelves of Pittsburgh's food banks, Second Harvest and Food for the Hungry overseas.

A host of other organizations received Heinz contributions to further their efforts in medical research, education, neighborhood improvement and minority advancement. The company continued its financial support for a genetic treatment center founded by the Pittsburgh-based Sickle Cell Society.

Star-Kist in Samoa, through a grant from the H. J. Heinz Company Foundation, donated $15,000 in scholarships to the school system of American Samoa and the Marist Brothers High School. Scholarship funds also supported students attending three major universities in Puerto Rico.

For the second year, 9 Lives increased public awareness of feline health care needs during its Cat Health Month. A star-studded ceremony in Beverly Hills served as the setting for the National Morris Award, an event which benefits Actors and Others for Animals, a non-profit organization dedicated to promoting the humane treatment of animals.

Tuffy's Dog Food, a Star-Kist affiliate based in Minnesota, has taken the lead in promoting sled dog racing as an official sport at the Winter Olympics. To further this goal, the Alberta International Sled Dog Classic, sponsored by Tuffy's, was held in Canmore, Alberta, near the site of the 1988 Winter Games.

Ore-Ida staged its fourth annual Women's Challenge, the premier women's cycling event in the U.S. Because of its increasing prestige and popularity, Ore-Ida's cycling contest has drawn top women athletes from as far away as South Korea and the People's Republic of China.

Last year, Weight Watchers groups in 26 states helped raise $300,000 for the March of Dimes. Over 4,000 members and employees of Weight Watchers International participated in the Walk America fund-raising effort, making them the fourth largest team.

In Italy, Plada's Scotti-Bassani Foundation for Scientific and Nutritional Research and Information continued its service as an invaluable resource for nutritionists and medical professionals around the world.

Following a series of dangerous mudslides in Bergamo province, Heinz-Italy assisted the Red Cross in its rescue and relief efforts.

Australia's 200th birthday was marked by the initiation of the H.J. Heinz Bicentennial Scholarship to support graduate business education at the Melbourne University Graduate School of Management. Heinz-Australia also established the Heinz Research Scholarship to further post-graduate research at Macquarie University in the field of tomato enzymes and cell wall polymers.

Caribbean Restaurants continued its generous support of Puerto Rican community activities, including the Muscular Dystrophy Association; the Roberto Clemente Sport City, one of the largest sports complexes on the island; and the Olympic Lodging, a unique facility in the Caribbean and South America.

What Management Doesn't Know Can Hurt.

KARL M. VON DER HEYDEN, SENIOR VICE PRESIDENT – FINANCE AND CHIEF FINANCIAL OFFICER

Karl von der Heyden's management of Heinz's financial operations reflects the company's style, in form as well as in function. His Friday morning meeting in Pittsburgh with the doers and thinkers on his staff is a freewheeling exchange of information, intelligence and opinion. The formal budget and forecast procedure he devised is a system based on elaborate and detailed underlying data supplied by the chiefs of all subsidiaries. By linking the opposite poles of tight central financial controls and decentralized management, von der Heyden established a critical turning point in the company's corporate culture.

In a dynamic world economy, a global company like Heinz has to keep abreast of many rapidly shifting realities in finance, tax regulations and capital markets. With the pace of change enormously quickened by deregulation and technology, the chief financial officer is the open gateway to World Headquarters for constant formal and informal communications. Top management by definition exercises the final authority, but in financial matters it must know enough to exercise the authority intelligently. Chief Financial Officer von der Heyden is the architect of channels for minutely detailed information running back to the plant level.

Once a traditional and venerated ritual handled by dimly glimpsed executives, corporate finance at Heinz is now a management function highly visible, relentlessly creative and dedicated to making its own valuable contribution to the bottom line. A slim staff in itself is a fruitful money maker. The entire corporate financial contingent of just 60, including seven in the treasury department, handles all tax, accounting, banking, business analysis, investor relations and risk management functions. That's about one-half the staff of a comparably sized company.

Karl M. von der Heyden

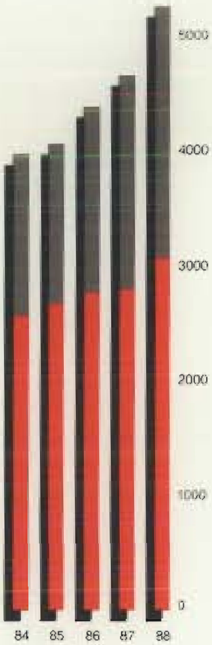
The paramount value of mastering detail is explicit in how von der Heyden's thinkers weigh the uses of intricate national tax codes. Many millions are saved by measuring the tax consequences of decisions on acquisitions, mergers, dividends and overseas investment. Though local tax work is handled by subsidiaries, only von der Heyden's staff can provide a hard analysis of the interrelationships of business that cross national boundaries — how A reinforces B, overlaps C and defeats the purpose of D. This kind of discipline establishes the right priorities and — no small contribution in itself — helps to avoid excessive expectations at the local level.

In a company that lives and breathes on the most efficient uses of its capital and its workforce, von der Heyden and his team help to foster unity of purpose among managers who may have conflicting claims on company resources. By advice and example, finance aids and abets productivity and efficiency, helps funnel capital to businesses that can use it most profitably and identifies operations that may have grown sluggish in sheltered corners of the enterprise.

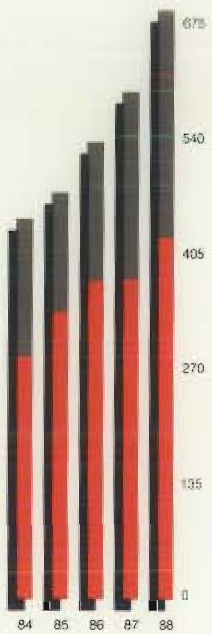
Constant communication with subsidiary financial managers gives von der Heyden's group enough information to monitor each affiliate's monthly report, yearly budget and five-year business plan to red flag managers who are straying off course. Collegiality to von der Heyden means sober calculation of the company's overall interest. Which proves the necessity of an independent finance department, not to act in solitude on the basis of some private view, but to provide an unbiased assessment of economic events, to speak up when necessary and, ultimately, to recommend doing what has to be done with the tools available.

Ingolf Karl Mueller von der Heyden: SENIOR VICE PRESIDENT – FINANCE AND CHIEF FINANCIAL OFFICER, SINCE 1983; b. BERLIN, GERMANY, JULY 18, 1936; ed. STUDENT, FREE UNIVERSITY OF BERLIN, 1959-61/B.A., DUKE UNIVERSITY/M.B.A., UNIVERSITY OF PENNSYLVANIA; CERTIFIED PUBLIC ACCOUNTANT; MANAGEMENT TRAINEE, BERLINER BANK AG, 1957-59; SENIOR STAFF ACCOUNTANT, COOPERS AND LYBRAND, PHILADELPHIA, 1963-66; ASSISTANT CONTROLLER AND CONTROLLER, PITNEY BOWES, STAMFORD, CONNECTICUT, 1966-74; VICE PRESIDENT AND CONTROLLER, PEPSICO, PURCHASE, NEW YORK, 1974-77; VICE PRESIDENT AND CHIEF FINANCIAL OFFICER, PEPSI COLA CO., 1977-79; VICE PRESIDENT OF MANUFACTURING, PEPSI COLA BOTTLING GROUP, 1979-80; VICE PRESIDENT OF FINANCE & TREASURER, H. J. HEINZ COMPANY, PITTSBURGH, 1980-83; TRUSTEE: CHILDREN'S HOSPITAL OF PITTSBURGH; MEMBER: FINANCIAL EXECUTIVES INSTITUTE, AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS.

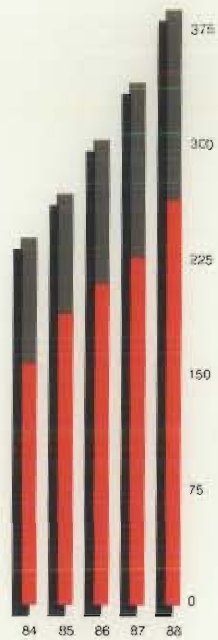
Financial Charts.



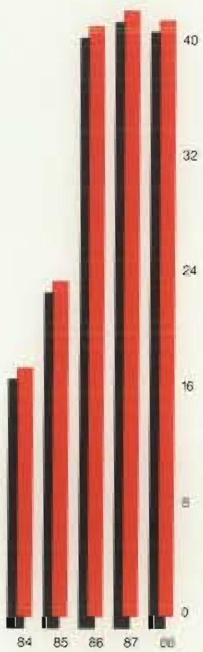
NET SALES
(in millions of dollars)
Foreign
Domestic
Five-Year Compound
Growth: 7.0%



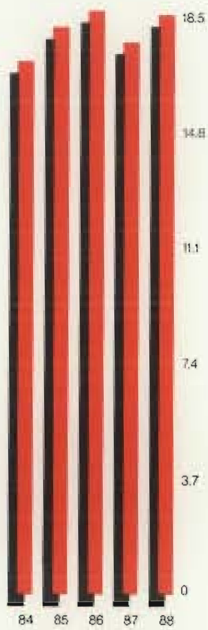
OPERATING INCOME
(in millions of dollars)
Foreign
Domestic
Five-Year Compound
Growth: 12.4%



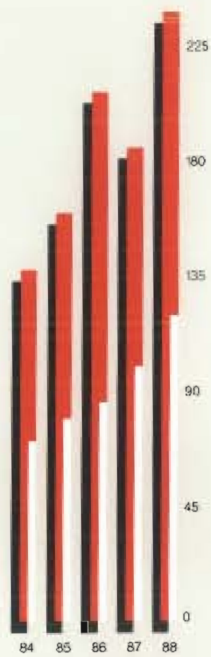
NET INCOME
(in millions of dollars)
Foreign
Domestic
Five-Year Compound
Growth: 12.5%



COMMON STOCK PRICE
AT YEAR-END
(in dollars)



AFTER TAX RETURN
ON INVESTED CAPITAL
(in percent)



CAPITAL EXPENDITURES
AND DEPRECIATION
(in millions of dollars)
Capital Expenditures
Depreciation

Financial Review.

H.J. HEINZ COMPANY AND SUBSIDIARIES

OPERATING RESULTS

Net sales rose 13.0%, or $604.7 million in 1988, surpassing $5 billion for the first time. Unit volume growth and acquisitions accounted for approximately 40% of the increase; the lower U.S. dollar exchange rates used in the translation of foreign currencies accounted for over one-third of the increase, while price increases comprised the balance. Domestic volume gains, particularly pet foods and Weight Watchers meetings and food products contributed nearly 90% of the consolidated volume gains. Price increases were equally distributed among domestic and foreign operations. Tuna provided over 80% of the U.S. price increase, while foreign increases were contributed by major brands in the United Kingdom, Italy, Canada, Australia, Venezuela and Zimbabwe.

In 1987 approximately two-thirds of the sales increase of $273.3 million was due to exchange rate increases over the U.S. dollar. The remaining one-third was accounted for by volume gains and acquisitions. Price increases in some foreign markets were offset by lower prevailing prices in the United States.

The gross profit margin improved to 39.5% in 1988, from 39.4% in 1987 and 38.2% in 1986. Lower commodity costs, volume growth in higher margin products and benefits of cost reduction programs more than offset increases in tuna costs.

Marketing expenditures, consisting of advertising and promotional support, increased by 18.5% to $450.2 million in 1988, up from $379.8 million in 1987 and $348.0 million in 1986. This spending was 8.6% of sales in 1988 compared with 8.2% in 1987 and 8.0% in 1986. The increases were used to promote the company's major brands and to provide support for niche products, such as rice cakes and flavored rice mixes. Other operating expenses increased 9.0% in 1988 compared with an increase of 8.4% in 1987. Expenses declined, however, as a percent of sales, reflecting the company's continuing cost reduction programs.

Operating income was $688.0 million in 1988, compared with $593.0 million in 1987 and $532.6 million in 1986. The operating income margin increased to 13.1% of sales, compared with 12.8% in 1987 and 12.2% in 1986. The 1988 operating income improvement was provided nearly equally by domestic and foreign operations, as both continued to benefit from sales growth in higher profit margin products. The greatly accelerated marketing spending fueled sales increases. These increases, together with foreign currency gains and cost reduction programs, led to higher operating margins, despite higher tuna costs.

Domestically, Weight Watchers meetings and food operations led operating income improvements in 1988. Other increases came from tuna and retail potatoes.

Heinz-Italy and Heinz-U.K. contributed over 80% of the 1988 foreign operating income growth, with improvements primarily coming from cost reductions and price increases. In addition, both the pound sterling and the lira strengthened against the U.S. dollar and added to the increase. Operations in Australia, Japan, Venezuela and Zimbabwe also had outstanding operating income growth.

In 1987 foreign companies accounted for 37% of total operating income. Operating income improvement was provided by Heinz-Italy and Heinz-U.K., both in local currency growth and favorable exchange against the U.S. dollar. Operations in Portugal, Central Europe, Japan, Venezuela and Zimbabwe also contributed significantly to operating income.

Domestic operating income growth in 1987 was provided by Weight Watchers meetings and food operations and by Hubinger.

Interest expense increased 45.2% in 1988 to $74.0 million, from $51.0 million in 1987 and $58.0 million in 1986. The current year's increase is due to higher average debt levels which were incurred for acquisitions and stock repurchases, offset partially by lower average interest rates. Interest expense decreased 12.0%, or $7.0 million, in 1987 due to lower average interest rates partially offset by higher average borrowings.

In addition to including recurring non-operating items, other expenses, net includes certain unusual non-operating items that, by their nature, fluctuate from period to period. Other expenses, net increased $16.1 million in 1988 over 1987. 1987 included a $13.9 million non-recurring credit arising from the effect of the U.S. Tax Reform Act of 1986 on assumptions used in accounting for tax benefit leases, which were entered into in 1982 and 1983. The remaining increase in 1988 over 1987 was due predominately to higher goodwill and trademark amortization from acquisitions.

The 1988 provision for income taxes of $236.6 million resulted in an effective tax rate of 38.0%, down from 40.0% in 1987 and 39.6% in 1986. 1988 benefited from the statutory tax rate reduction provided by the Tax Reform Act of 1986. This benefit was partially offset by higher foreign effective tax rates. The increase in the 1987 rate over 1986 reflects the repeal of the investment tax credit by the Tax Reform Act of 1986, as well as

higher statutory rates in certain foreign countries. In December 1987 the Financial Accounting Standards Board (FASB) issued Statement No. 96, "Accounting for Income Taxes." For further discussion on the effect of implementing this statement, see notes to the consolidated financial statements on page 36.

Net income in 1988 rose 14.0% to $386.0 million. Net income per share increased 17.8% to $2.91, reflecting both improved operating results and the impact of the common stock repurchase program. Domestic companies contributed 68.0% of consolidated net income in 1988, 66.5% in 1987, and 69.0% in 1986. Net income in 1987 rose 12.2% to $338.5 million, with an increase in net income per share of 12.3% to $2.47.

The company paid a record $154.4 million in dividends to common shareholders, or $1.21 per share. The quarterly dividend was increased from 28 cents per share to 31 cents per share in September 1987. The dividend rate in effect at year-end results in a payout ratio on current year earnings of 42.6%, versus 45.3% in 1987 and 40.9% in 1986. Common dividends of $132.3 million were paid in 1987, an increase of $14.9 million over 1986.

The impact of inflation on both the company's financial position and results of operations has been minimal and is not expected to adversely affect the 1989 results.

The 1988 drought, experienced in most farming regions of the United States, is not expected to have a significant impact on the company's 1989 results.

ACQUISITIONS AND DIVESTITURES

1988 represented a year of significant acquisition activity for the company. Total cost to the company was $326.4 million. The company strengthened its position in pet foods with three separate purchases: Mavar Shrimp & Oyster Company, Inc. (canned and dry cat foods); California Home Brands Holdings, Inc. (CHB) (canned dog and cat foods); and Champion Valley Farms, Inc. (canned dog foods and training treats). Because both Mavar and CHB were purchased during the latter part of the fiscal year, pet foods are expected to have incremental growth in 1989.

The company continued its geographic expansion program by extending its operations in Southeast Asia, Africa and Europe. Through a joint venture in Thailand, the company purchased a majority share of Win-Chance Foods Company, Ltd. (baby cereal and flavored milk powder). Kgalagadi Soap Industries, the sole producer of toilet and laundry soaps in Botswana, was acquired in March 1988. European operations were expanded with two purchases: S. Orlando S.A. (a Spanish producer of tomato-based condiments) and Judice Fialho (a Portuguese producer of canned sardines).

The company moved into new areas with the purchase of Pro Pastries, Inc. and Pro Bakers Ltd. (frozen unbaked pastries) and Friteco, Inc., renamed Ore-Ida Vended Products, Inc. (automated french fry vending machines).

During 1988 the company sold Stanley Wine Company, an Australian producer of wine and wine cooler products. Also, several other small companies were sold during the year. None of the sales had a material impact on the consolidated financial results.

LIQUIDITY AND CAPITAL RESOURCES

Return on average shareholders' equity improved for the tenth consecutive year, reaching 25.8% in 1988, up from 24.6% last year and 23.3% in 1986. Funds from operations increased $48.9 million to $562.9 million. Of this increase, 45.2% was returned to shareholders through higher dividends. In 1988, $124.4 million was spent to repurchase 2.7 million common shares. The company intends to reissue repurchased shares upon the exercise of stock options and conversions of preferred stock and convertible debt.

Total debt decreased by $96.3 million to $780.3 million from $876.6 million in 1987. Cash and short-term investments decreased by $311.8 million to $252.8 million in 1988 from $564.7 million in 1987. "Net debt" was up $215.5 million over the prior year, primarily due to increased acquisition activity. $326.4 million was spent in 1988 for acquisitions, compared with $84.7 million in 1987 and $13.2 million in 1986. Other capital expenditures, net were $213.9 million in 1988, compared with $171.0 million in 1987 and $200.1 million in 1986. Capital spending was directed primarily to growth-related expansion and to productivity improvements at existing facilities.

At April 27, 1988 the company had $347.0 million in unused lines of credit (cancellable only after 390 days written notice), which are maintained primarily to support domestic commercial paper and bank borrowings. Accordingly, $235.2 million of commercial paper and bank debt supported by such agreements was classified as long-term debt ($347.0 million at April 29, 1987). In addition, the company has $496.9 million of foreign and other domestic lines of credit available at year-end, principally for overdraft protection ($409.2 million at April 29, 1987).

On June 28, 1988 the company issued Australian $100.0 million (U.S. $80.0 million) of 12¾% unsecured notes due in 1991. The proceeds of this issue were swapped into floating rate U.S. dollar debt and will be used to repay certain commercial paper and bank borrowings.

The ratio of debt to total invested capital decreased to 32.9% in 1988, compared with 38.6% in 1987 and 28.4% in 1986. This reduced debt leverage (principally as a result of repayment of debt using short-term investments), along with net income growth, caused pre-tax return on average invested capital to rise from 29.5% to 30.0%.

SEGMENT AND GEOGRAPHIC DATA

The company is engaged principally in one line of business—processed food products—which represents over 90% of consolidated sales. The following table presents information about the company by geographic area. There were no material amounts of sales or transfers between geographic areas and no material amounts of United States export sales.

(in thousands of U.S. dollars)	*Domestic*	*Foreign*					*Worldwide*
		Continental Europe	*United Kingdom*	*Canada*	*Other*	*Total*	
1988							
Sales	**$3,052,583**	**$789,056**	**$743,840**	**$317,929**	**$340,822**	**$2,191,647**	**$5,244,230**
Operating income	**423,333**	**100,856**	**83,043**	**31,126**	**49,655**	**264,680**	**688,013**
Identifiable assets	**2,001,342**	**626,555**	**507,253**	**202,621**	**267,312**	**1,603,741**	**3,605,083**
Capital expenditures*	**114,947**	**19,580**	**73,064**	**15,332**	**15,342**	**123,318**	**238,265**
Depreciation expense	**75,544**	**14,315**	**15,050**	**7,639**	**6,877**	**43,881**	**119,425**
1987							
Sales	$2,780,923	$673,186	$626,733	$292,070	$266,574	$1,858,563	$4,639,486
Operating income	372,840	83,669	63,537	38,337	34,602	220,145	592,985
Identifiable assets	1,980,811	571,372	429,691	186,674	195,649	1,383,386	3,364,197
Capital expenditures*	101,927	15,834	42,509	13,475	10,985	82,803	184,730
Depreciation expense	65,932	11,203	10,541	6,460	5,082	33,286	99,218
1986							
Sales	$2,764,815	$492,275	$576,249	$285,928	$246,910	$1,601,362	$4,366,177
Operating income	371,897	48,013	55,739	32,167	24,767	160,686	532,583
Identifiable assets	1,724,593	412,425	363,006	149,712	187,628	1,112,771	2,837,364
Capital expenditures*	114,722	14,320	49,238	18,753	9,298	91,609	206,331
Depreciation expense	58,519	7,487	9,257	5,523	4,738	27,005	85,524

**Excludes net property, plant and equipment acquired through acquisitions.*

STOCK MARKET INFORMATION

H.J. Heinz Company common stock is traded principally on the New York Stock Exchange and the Pacific Stock Exchange, under the symbol HNZ. The number of shareholders of record of the company's common stock as of June 20, 1988 approximated 34,700. The closing price of the common stock on the New York Stock Exchange composite listing on April 27, 1988 was $41⅞. Stock price information for common stock by quarter follows:

	Stock Price Range	
	High	*Low*
1988		
First	**$50½**	**$42⅛**
Second	**51¾**	**33½**
Third	**43¾**	**35**
Fourth	**45**	**37¾**
1987		
First	$47½	$39⅜
Second	47⅞	38¼
Third	45¾	39⅝
Fourth	50½	40½

Consolidated Statements of Income and Retained Earnings.

H.J. HEINZ COMPANY AND SUBSIDIARIES

Fiscal Year Ended (in thousands except per share data)	***April 27, 1988 (52 weeks)***	*April 29, 1987 (52 weeks)*	*April 30, 1986 (52 weeks)*
CONSOLIDATED STATEMENT OF INCOME:			
Sales	**$5,244,230**	$4,639,486	$4,366,177
Cost of products sold	**3,174,159**	2,811,849	2,697,264
Gross profit	**2,070,071**	1,827,637	1,668,913
Operating expenses	**1,382,058**	1,234,652	1,136,330
Operating Income	**688,013**	592,985	532,583
Interest income	**39,850**	37,790	36,608
Interest expense	**73,995**	50,978	57,956
Other expense, net	**31,295**	15,221	11,907
Income before income taxes	**622,573**	564,576	499,328
Provision for income taxes	**236,559**	226,070	197,594
Net Income	**$ 386,014**	$ 338,506	$ 301,734
CONSOLIDATED STATEMENT OF RETAINED EARNINGS:			
Amount at beginning of year	**$1,770,632**	$1,564,581	$1,380,425
Net income	**386,014**	338,506	301,734
Cash dividends:			
Common stock	**154,418**	132,278	117,351
Preferred stock	**155**	177	227
Amount at end of year	**$2,002,073**	$1,770,632	$1,564,581
PER COMMON SHARE AMOUNTS:			
Net income	**$ 2.91**	$ 2.47	$ 2.20
Cash dividends	**$ 1.21**	$ 1.00½	$ .87½

See Notes to Consolidated Financial Statements.

Consolidated Statement of Changes in Financial Position.

H.J. HEINZ COMPANY AND SUBSIDIARIES

Fiscal Year Ended (in thousands)	***April 27, 1988***	*April 29, 1987*	*April 30, 1986*
SOURCE OF FUNDS:			
Net income	**$ 386,014**	$338,506	$301,734
Depreciation and amortization	**133,348**	109,868	91,400
Deferred taxes	**15,203**	25,128	31,986
Other items, net	**28,329**	40,507	(22,233)
Funds from operations	**562,894**	514,009	402,887
Increase in long-term debt	**73,327**	326,612	40,363
Proceeds from divestitures	**43,405**	–	2,600
Exercise of stock options	**38,984**	15,193	24,367
Total funds provided	**718,610**	855,814	470,217
USE OF FUNDS:			
Capital expenditures, net	**213,925**	171,031	200,145
Acquisitions	**326,379**	84,659	13,201
Common stock repurchases	**124,431**	236,331	131,832
Dividends	**154,573**	132,455	117,578
Reduction of long-term debt	**141,928**	43,179	13,680
Other noncurrent assets	**(13,697)**	82,381	(2,767)
Increase (decrease) in working capital:			
Receivables	**38,757**	11,698	94,370
Inventories	**39,140**	26,935	9,468
Prepaid expenses	**21,937**	34,284	6,744
Payables	**(51,322)**	(3,863)	(41,429)
Accruals	**(35,346)**	(57,956)	(16,265)
Income taxes	**32,110**	(3,400)	(40,749)
Increase in working capital	**45,276**	7,698	12,139
Changes in cash, other working capital and debt due to currency rate movements	**2,550**	(10,558)	(23,869)
Total funds used	**995,365**	747,176	461,939
Net change in cash and current debt	**$(276,755)**	$108,638	$ 8,278
CHANGES IN CASH AND CURRENT DEBT:			
(Decrease) increase in cash and short-term investments	**$(311,830)**	$159,421	$ 58,770
Decrease (increase) in current debt	**35,075**	(50,783)	(50,492)
	$(276,755)	$108,638	$ 8,278

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheet.

H.J. HEINZ COMPANY AND SUBSIDIARIES

Assets (dollars in thousands)	*April 27, 1988*	*April 29, 1987*
CURRENT ASSETS:		
Cash	**$ 47,894**	$ 48,139
Short-term investments, at cost which approximates market	**204,952**	516,537
Receivables	**499,405**	455,306
Less allowances	**7,502**	9,021
	491,903	446,285
Inventories:		
Finished goods and work-in-process	**561,899**	534,948
Packaging material and ingredients	**235,250**	211,952
	797,149	746,900
Prepaid expenses and other current assets	**122,511**	98,970
Total current assets	**1,664,409**	1,856,831
PROPERTY, PLANT AND EQUIPMENT (AT COST):		
Land	**42,198**	27,826
Buildings and leasehold improvements	**412,433**	369,980
Equipment, furniture and other	**1,571,092**	1,327,240
	2,025,723	1,725,046
Less accumulated depreciation	**771,784**	688,286
Net property, plant and equipment	**1,253,939**	1,036,760
OTHER NONCURRENT ASSETS:		
Investments, advances and other assets	**342,255**	263,563
Excess of investments in consolidated subsidiaries over net assets at acquisition	**344,480**	207,043
	$3,605,083	$3,364,197

See Notes to Consolidated Financial Statements.

Liabilities and Shareholders' Equity (dollars in thousands)	***April 27, 1988***	*April 29, 1987*
CURRENT LIABILITIES:		
Short-term debt	**$ 232,263**	$ 239,037
Portion of long-term debt due within one year	**23,679**	51,980
Accounts payable	**397,075**	333,389
Salaries and wages	**78,849**	68,462
Accrued marketing	**78,217**	63,854
Other accrued liabilities	**204,182**	184,995
Income taxes	**60,423**	93,055
Total current liabilities	**1,074,688**	1,034,772
LONG-TERM DEBT AND OTHER LIABILITIES:		
Long-term debt	**524,388**	585,603
Deferred income taxes	**262,331**	242,314
Other	**149,820**	108,559
	936,539	936,476
SHAREHOLDERS' EQUITY:		
Capital stock:		
Third cumulative preferred, $1.70 first series, $10 par value	**842**	970
Common stock, 143,700,000 shares issued, $.25 par value	**35,925**	35,925
	36,767	36,895
Additional capital	**135,885**	125,446
Retained earnings	**2,002,073**	1,770,632
Cumulative translation adjustments	**(33,131)**	(88,044)
	2,141,594	1,844,929
Less treasury shares, at cost (16,081,931 shares at April 27, 1988 and 15,061,327 shares at April 29, 1987)	**547,738**	451,980
Total shareholders' equity	**1,593,856**	1,392,949
	$3,605,083	$3,364,197

Notes to Consolidated Financial Statements.

H.J. HEINZ COMPANY AND SUBSIDIARIES

1. SIGNIFICANT ACCOUNTING POLICIES

Fiscal Year: The company operates on a fiscal year ending the Wednesday nearest April 30. However, certain foreign subsidiaries have earlier closing dates to facilitate timely reporting. Fiscal years for the financial statements included herein ended April 27, 1988, April 29, 1987 and April 30, 1986.

Principles of Consolidation: The consolidated financial statements include the accounts of the company and its domestic and foreign subsidiaries. Certain fishing vessel operations were consolidated in 1988 as a result of certain restructurings and the adoption of FASB Statement No. 94, "Consolidation of All Majority-owned Subsidiaries." The consolidation of these subsidiaries did not have a material effect on the consolidated financial results of the company.

All significant intercompany accounts and transactions were eliminated. Certain reclassifications were made to prior years' amounts to conform with the 1988 presentation.

Translation of Foreign Currencies: The financial position and results of operations of the company's foreign subsidiaries are measured generally using local currency as the functional currency. Assets and liabilities of these subsidiaries are translated at the exchange rate in effect at each year-end. Income statement accounts are translated at the average rate of exchange prevailing during the year. Translation adjustments arising from the use of differing exchange rates from period to period are included in the cumulative translation adjustment account in shareholders' equity.

Inventories: Inventories are stated at the lower of cost (principally the average cost method) or market.

Depreciation: For financial reporting purposes, depreciation is provided on the straight-line method over the estimated useful lives of the assets. Accelerated depreciation methods are generally used for income tax purposes.

Income Taxes: Deferred income taxes result primarily from timing differences between financial and tax reporting. The company has not provided for possible U.S. taxes on the undistributed earnings of foreign subsidiaries that are considered to be reinvested indefinitely. Where it is contemplated that earnings will be remitted, credit for foreign taxes already paid generally will offset applicable U.S. income taxes; in cases where they will not offset U.S. income taxes, appropriate provisions are included in the Consolidated Statement of Income. The investment tax credits are accounted for under the "flow-through" method, which recognizes the benefit in the fiscal year in which the asset was placed in service.

In December 1987 the FASB issued Statement No. 96, "Accounting for Income Taxes." The statement requires the use of the liability method of accounting for deferred income taxes and must be implemented no later than Fiscal 1990. The company is in the process of determining the impact of the statement's implementation.

Net Income Per Common Share: Net income per common share has been computed by dividing income applicable to common shareholders by 132,705,945 in 1988, 136,834,666 in 1987, and 137,315,701 in 1986, the weighted average number of shares of common stock outstanding and common stock equivalents during the respective years.

Intangibles: The excess of investments in consolidated subsidiaries over net assets at acquisition and other intangibles arising from acquisitions are being amortized on a straight-line basis over periods not exceeding forty years. The company regularly reviews the individual components of the balances and recognizes, on a current basis, any diminution in value.

Business Segment Information: Information concerning business segment and geographic data is on page 31 in the Financial Review.

2. ACQUISITIONS AND DIVESTITURES

The acquisitions made in 1988 were accounted for under the purchase method of accounting. Accordingly, the net assets and results of operations of the acquisitions have been included in the consolidated operating results of the company from their respective dates of purchase.

In pet foods operations, the company acquired the assets of Mavar Shrimp & Oyster Company, Inc. and the pet foods operations of California Home Brands Holdings, Inc. (CHB).

The company also purchased all outstanding shares of Champion Valley Farms, a regional dog foods producer.

In addition, the company acquired a majority interest in S. Orlando S.A. (Orlando), a Spanish producer of tomato-based condiments. Several smaller acquisitions were also completed during the year.

In the aggregate, the cost of the acquisitions (net of cash and short-term debt acquired) was $326.4 million and included intangibles of $222.3 million and property, plant and equipment of $90.9 million. The purchase price has been assigned to the net assets acquired, based on the estimated fair values of such assets and liabilities at date of acquisition.

Inclusion of the 1988 acquisitions as of the beginning of the year would not have a material effect on the company's consolidated results for 1986 through 1988.

On February 3, 1988 the company entered into a definitive merger agreement to acquire Bumble Bee Seafoods, Inc. of San Diego, California (Bumble Bee). Bumble Bee produces, distributes and markets canned seafood and other products, including Bumble Bee brand tuna, salmon and oysters and Figaro brand cat foods. On May 26, 1988 the Department of Justice advised the company of the Department's intention to challenge the merger. On June 3, 1988 the company announced that Bumble Bee and the company are continuing their discussions and the parties' merger agreement would remain in effect until further notice.

The company made several business divestitures during the current fiscal year. Such divestitures did not have a material effect on operating results or financial position.

3. INCOME TAXES

The following table summarizes the provision for federal, state, U.S. possessions and foreign taxes on income:

(in thousands)	**1988**	*1987*	*1986*
Current:			
Federal, state and U.S. possessions	**$129,675**	$ 87,985	$109,295
Foreign	**79,324**	55,322	45,955
	208,999	143,307	155,250
Deferred:			
Federal, state and U.S. possessions	**(7,614)**	54,738	25,826
Foreign	**35,174**	28,025	16,518
	27,560	82,763	42,344
Total tax provision	**$236,559**	$226,070	$197,594
Pretax Income:			
Domestic	**$384,572**	$367,876	$343,255
Foreign	**238,001**	196,700	156,073
	$622,573	$564,576	$499,328

The current provision for federal taxes includes a reduction for investment tax credits amounting to $1.5 million in 1987, and $6.9 million in 1986. Deferred taxes result principally from depreciation and prefunded employee benefits.

The company's consolidated United States income tax returns have been audited by the Internal Revenue Service for all years through 1983.

The differences between the United States statutory tax rate and the effective rate are as follows:

	1988	*1987*	*1986*
United States statutory tax rate	**36.0%**	46.0%	46.0%
Investment tax credit	–	(.3)	(1.4)
Tax on income of foreign subsidiaries	**4.6**	(1.3)	(1.8)
Tax on income of U.S. possessions subsidiaries	**(5.9)**	(5.5)	(6.5)
State income taxes (net of federal income tax benefit)	**2.3**	1.2	1.9
Other	**1.0**	(.1)	1.4
Consolidated effective tax rate	**38.0%**	40.0%	39.6%

Undistributed earnings of foreign subsidiaries, which are considered permanently reinvested, were $555.1 million at April 27, 1988.

4. DEBT

Short-Term (dollars in thousands)	*1988*	*1987*
Amount outstanding at year-end:		
Commercial paper	–	$144,233
Bank borrowings	**$232,263**	94,804
	$232,263	$239,037

Long-Term (dollars in thousands)	*Range of Interest*	*Maturity (fiscal year)*	*1988*	*1987*
United States Dollars:				
Commercial paper and master notes	Variable	1990	**$235,221**	$347,000
Convertible subordinated debentures				
(Net of unamortized discount of $5,858)	7¼%	2001–2015	**34,756**	34,682
Eurodollar bonds	7½	1997	**75,000**	75,000
Debentures	7¼	1998	**2,789**	2,789
Revenue bonds	5⅜–11¾	1989–2016	**79,195**	37,510
Promissory notes	2–12	1989–2000	**20,510**	36,729
Other	4–10	1989–2000	**24,497**	7,720
			471,968	541,430
Foreign Currencies (U.S. dollar equivalents):				
Promissory notes:				
German marks	6¾	1988	–	27,617
Italian lire	5⅛–17¼	1989–1997	**15,496**	15,489
Australian dollars	12⅛	1991	**26,311**	26,338
Other	7⅜–20	1989–1997	**34,292**	26,709
			76,099	96,153
Total long-term debt			**548,067**	637,583
Less portion due within one year			**23,679**	51,980
			$524,388	$585,603

The amount of long-term debt required to be retired in each of the four years succeeding 1989 is: $20.0 million in 1990, $39.9 million in 1991, $44.3 million in 1992 and $10.2 million in 1993.

The $235.2 million of commercial paper and master notes ($347.0 million at April 29, 1987) is supported by long-term line of credit agreements that are cancellable only after 390 days written notice. The commercial paper and master notes had a weighted average interest rate during the year of 7.0% and at year-end of 7.3%. In addition, the company has $496.9 million of foreign and other domestic lines of credit available at year-end ($409.2 million at April 29, 1987), principally for overdraft protection.

The convertible subordinated debentures are convertible into common stock of the company at $35.19 per share, subject to adjustment. The company may redeem all, or part, of the debentures at 100% of face value. Annual sinking fund payments of $2.0 million are required beginning February 2001.

The Eurodollar bonds include warrants to purchase an additional $75.0 million of 7½% bonds for a period of four years beginning October 1, 1986.

5. CAPITAL STOCK, ADDITIONAL CAPITAL AND CUMULATIVE TRANSLATION ADJUSTMENTS

Information related to shares of stock outstanding and in treasury, and to additional capital follows:

	Shares (in thousands)			
	Cumulative Preferred Stock	Common Stock		
	Third, $1.70 First Series $10 par	Issued	In Treasury	Additional Capital (in thousands)
Balance May 1, 1985	141	143,700	7,232	$ 86,606
Reacquired	–	–	4,680	–
Conversion of preferred into common stock	(27)	–	(121)	(1,612)
Stock options exercised	–	–	(1,508)	1,039
Other, net	–	–	–	(151)
Balance April 30, 1986	114	143,700	10,283	$ 85,882
Reacquired	–	–	5,474	–
Conversion of preferred into common stock	(17)	–	(77)	(1,124)
Stock options exercised	–	–	(619)	4,763
Reduction in par value of common stock	–	–	–	35,925
Balance April 29, 1987	**97**	**143,700**	**15,061**	**$125,446**
Reacquired	**–**	**–**	**2,723**	**–**
Conversion of preferred into common stock	**(13)**	**–**	**(58)**	**(843)**
Stock options exercised	**–**	**–**	**(1,638)**	**11,013**
Other, net	**–**	**–**	**(6)**	**269**
Balance April 27, 1988	**84**	**143,700**	**16,082**	**$135,885**
Authorized—April 27, 1988	**84**	**600,000**	–	–

Capital stock: Common stock reserved for stock option plans and conversion of preferred stock and convertible debt into common stock totaled 19,845,766 shares as of April 27, 1988. The preferred stock outstanding is convertible at a rate of one share of preferred stock into 4.5 shares of common stock. The company can redeem the stock at $28.50 per share.

In September 1986 the shareholders approved an increase to the authorized common stock of the company from 300,000,000 shares to 600,000,000 shares and to change the par value of the common stock from $.50 per share to $.25 per share.

At April 27, 1988 there were authorized, but unissued, 2,200,000 shares of third cumulative preferred stock for which the series had not been designated.

Cumulative translation adjustments: Changes in the cumulative translation component of shareholders' equity result principally from translation of foreign subsidiaries' financial statements into U.S. dollars. The translation component decreased $54.9 million in 1988, $48.0 million in 1987, and $52.8 million in 1986.

6. EMPLOYEES' STOCK OPTION PLANS AND MANAGEMENT INCENTIVE PLANS

Under the company's stock option plans, officers and other key employees may be granted options, each of which allows for the purchase of one share of the company's common stock. The option price on all outstanding options is equal to the fair market value of the stock at the date of grant.

The company's 1984 Stock Option Plan authorizes the granting of 10,000,000 shares through December 1994. As of April 27, 1988 options for approximately 8,356,000 shares have been granted under this plan. The 1987 Stock Option Plan, approved by the shareholders at the 1987 Annual Meeting, provides for the granting of 5,000,000 shares through January 1997. As of April 27, 1988 options for approximately 397,000 shares have been granted under this plan.

Data regarding the company's stock option plans follows:

	Shares	*Range of Option Price*
Shares under option May 1, 1985	10,486,818	$ 5¼–22
Options granted	1,190,040	23⅛–32⅝
Options exercised	(1,508,419)	5¼–27⅝
Options surrendered	(31,400)	12⅝–29⅞
Shares under option April 30, 1986	10,137,039	$ 5¼–32⅝
Options granted	3,811,284	42¼–45¼
Options exercised	(618,993)	5¼–42¼
Options surrendered	(23,000)	42¼–45¼
Shares under option April 29, 1987	**13,306,330**	**$ 5½–45¼**
Options granted	**422,780**	**38–49**
Options exercised	**(1,637,860)**	**5½–45¼**
Options surrendered	**(26,000)**	**32⅝–45¼**
Shares under option April 27, 1988	**12,065,250**	**$ 6⅜–49**
Options exercisable at:		
April 29, 1987	11,341,524	
April 27, 1988	**10,631,210**	

Common stock reserved for options totaled 18,312,576 shares as of April 27, 1988 and 14,950,436 shares as of April 29, 1987.

The company's management incentive plans cover certain key employees of the company and its subsidiaries. Participants in the plans may elect to be paid on a current or deferred basis. The aggregate amount of all awards may not exceed certain limits in any year. Management incentive plan expense was $23.3 million in 1988, $16.1 million in 1987, and $19.9 million in 1986.

7. RETIREMENT PLANS

The company maintains retirement plans for the majority of its employees. Benefits are based on years of service and compensation or stated amounts for each year of service. Plan assets are primarily invested in equity and fixed-income securities. The company's funding policy for the U.S. plans is to contribute annually not less than the ERISA minimum funding standards or more than the maximum amount which can be deducted for federal income tax purposes. Generally, foreign plans are funded in amounts sufficient to comply with local regulations and ensure adequate funds to pay benefits to retirees as they become due.

The company adopted FASB Statement No. 87, "Employers' Accounting for Pensions," for its U.S. and Canadian plans in 1987 and for its other principal foreign plans in 1988. Although the adoption of the new standard reduced pension costs in 1987 and 1988, the effects on net income were not material.

The 1988 and 1987 consolidated pension costs consisted of the following:

(in thousands)	*1988*	*1987*
Benefits earned during the year	**$ 28,955**	$13,753
Interest cost on projected benefit obligation	**64,535**	31,271
Actual return on plan assets	**32,389**	(71,612)
Net amortization and deferral	**(118,378)**	31,170
Net pension costs determined under FASB Statement No. 87	**7,501**	4,582
Pension costs not under FASB Statement No. 87	**–**	10,214
Consolidated net pension costs	**$ 7,501**	$14,796

Consolidated pension cost for 1986 was $23.5 million.

The following table sets forth the combined funded status of the company's principal plans (U.S., Canada, U.K. and Australia) at April 27, 1988 and at April 29, 1987. The 1987 amounts have been restated to include the U.K. and Australian plans for which FASB Statement No. 87 was adopted during 1988.

(in thousands)	*1988*	*1987*
Actuarial present value of:		
Accumulated benefit obligation, primarily vested	**$705,778**	$628,337
Additional obligation for projected compensation increases	**138,088**	123,492
Projected benefit obligation	**843,866**	751,829
Plan assets	**873,514**	881,487
Amount expensed but not yet funded	**8,274**	16,205
Amount provided for future benefits	**881,788**	897,692
Amount provided for future benefits in excess of projected benefit obligation	**$ 37,922**	$145,863
Consists of:		
Unamortized actuarial (losses) gains	**$(66,290)**	$ 41,147
Unamortized prior service cost	**(27,471)**	(25,788)
Unamortized net assets at date of adoption	**131,683**	130,504
	$ 37,922	$145,863

The following expected long-term rates of return on plan assets were used to determine pension costs accounted for under FASB Statement No. 87 for the years ended April 27, 1988 (U.S., Canada, U.K. and Australia) and April 29, 1987 (U.S. and Canada). The discount rates and long-term rates for compensation increases were used to estimate the present value of the projected benefit obligation as of the end of each year. These weighted average rates were as follows:

	1988	*1987*
Expected rates of return on plan assets	**9.17%**	9.00%
Assumed discount rates	**8.82%**	8.63%
Assumed rates for compensation increases	**6.25%**	6.07%

Assumptions for foreign plans are developed on a basis consistent with those for U.S. plans, adjusted for prevailing economic conditions.

In addition to providing pension benefits, the company and certain of its subsidiaries provide health care and life insurance benefits for retired employees. Substantially all of the company's U.S. and Canadian employees may become eligible for these benefits. The cost of retiree health care and life insurance benefits is expensed as incurred. These costs totaled approximately $3.3 million in 1988, $3.1 million in 1987 and $3.0 million in 1986.

8. LEASES

Operating lease rentals for warehouse, production and office facilities and equipment amounted to approximately $48.8 million in 1988, $42.3 million in 1987 and $36.7 million in 1986. Future lease payments for noncancellable operating leases as of April 27, 1988 totaled $145.6 million (1989–$28.9 million, 1990–$23.6 million, 1991–$18.3 million, 1992–$13.5 million, 1993–$10.8 million, and thereafter–$50.5 million).

9. LEGAL MATTERS

Certain claims have been filed against the company or its subsidiaries and have not been finally adjudicated. These claims, when finally concluded and determined, will not, in the opinion of management, based upon the information that it presently possesses, have a material adverse effect on the consolidated financial position.

10. QUARTERLY RESULTS *(Unaudited)*

Summarized quarterly financial information follows:

				Per Share Amounts	
(in thousands except per share amounts)	*Sales*	*Gross Profit*	*Net Income*	*Net Income*	*Dividend*
1988					
First	**$1,247,470**	**$ 490,977**	**$ 97,175**	**$ .73**	**$ .28**
Second	**1,275,068**	**498,849**	**96,046**	**.72**	**.31**
Third	**1,252,852**	**500,096**	**91,096**	**.69**	**.31**
Fourth	**1,468,840**	**580,149**	**101,697**	**.77**	**.31**
Total	**$5,244,230**	**$2,070,071**	**$386,014**	**$2.91**	**$1.21**
1987					
First	$ 1,084,353	$ 426,525	$ 85,749	$ .62	$ .22½
Second	1,157,263	450,600	83,954	.61	.25
Third	1,084,858	433,491	74,666	.55	.25
Fourth	1,313,012	517,021	94,137	.69	.28
Total	$ 4,639,486	$ 1,827,637	$338,506	$2.47	$1.00½

INDEPENDENT ACCOUNTANTS' REPORT

The Shareholders
H.J. Heinz Company:

We have examined the consolidated balance sheet of H.J. Heinz Company and subsidiaries as of April 27, 1988 and April 29, 1987, and the related consolidated statements of income, retained earnings and changes in financial position for each of the three years in the period ended April 27, 1988. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of H.J. Heinz Company and subsidiaries as of April 27, 1988 and April 29, 1987, and the consolidated results of their operations and the changes in their financial position for each of the three years in the period ended April 27, 1988 in conformity with generally accepted accounting principles applied on a consistent basis.

Coopers & Lybrand

COOPERS & LYBRAND
Pittsburgh, Pennsylvania
June 20, 1988

RESPONSIBILITY FOR FINANCIAL STATEMENTS

Management of H.J. Heinz Company is primarily responsible for the preparation of the financial statements and other information included in this annual report. The financial statements have been prepared in conformity with generally accepted accounting principles, incorporating management's best estimates and judgments, where applicable.

Management believes that the company's internal control systems provide reasonable assurance that assets are safeguarded, transactions are recorded and reported appropriately and policies are followed. The concept of reasonable assurance recognizes that the cost of a control procedure should not exceed the expected benefits. Management believes that its systems provide this appropriate balance. An important element of the company's control systems is the ongoing program to promote control consciousness throughout the organization. Management's commitment to this program is emphasized through written policies and procedures (including a code of conduct), an effective internal audit function and a qualified financial staff.

The company engages independent public accountants who are responsible for performing an independent examination of the financial statements. Their report, which appears herein, is based on obtaining an understanding of the company's accounting systems and procedures and testing them as they deem necessary.

The company's Audit Committee is composed entirely of outside directors. The Audit Committee meets regularly, and when appropriate separately, with the independent public accountants, the internal auditors and financial management to review the work of each and to satisfy itself that each is discharging its responsibilities properly. Both the independent public accountants and the internal auditors have unrestricted access to the Audit Committee.

Eleven-Year Summary of Operations and Related Data.

H.J. HEINZ COMPANY AND SUBSIDIARIES

Fiscal Year (dollars in thousands except per share data)	*1988*	*1987*	*1986*	*1985*
SUMMARY OF OPERATIONS:				
Sales	**$ 5,244,230**	$ 4,639,486	$ 4,366,177	$ 4,047,945
Cost of products sold	**3,174,159**	2,811,849	2,697,264	2,532,776
Interest expense	**73,995**	50,978	57,956	52,821
Provision for income taxes	**236,559**	226,070	197,594	179,325
Net income	**386,014**	338,506	301,734	265,978
Net income per common share	**2.91**	2.47	2.20	1.93
OTHER DATA:				
Dividends paid:				
Common	**154,418**	132,278	117,351	105,489
per share	**1.21**	1.00½	.87½	.77½
Preferred	**155**	177	227	291
Average number of common shares outstanding	**127,604,310**	131,665,217	134,125,804	136,102,374
Capital expenditures	**238,265**	184,730	206,331	158,830
Depreciation	**119,425**	99,218	85,524	78,833
Total assets	**3,605,083**	3,364,197	2,837,364	2,473,774
Total debt	**780,330**	876,620	540,588	463,413
Shareholders' equity	**1,593,856**	1,392,949	1,360,007	1,230,454
Pretax return on average invested capital (%)	**30.0**	29.5	31.0	30.5
Return on average shareholders' equity (%)	**25.8**	24.6	23.3	22.6
Book value per common share	**12.47**	10.81	10.17	8.98
Price range of common stock:				
High	**51¾**	50½	44	24½
Low	**33½**	38¼	22⅝	16¼

1984	1983	1982	1981	1980	1979	1978
$ 3,953,761	$ 3,738,445	$ 3,688,500	$ 3,568,889	$ 2,924,774	$ 2,470,883	$ 2,159,436
2,489,513	2,400,973	2,432,944	2,372,759	1,947,443	1,654,606	1,453,025
46,417	50,354	58,831	59,585	49,010	29,471	18,859
164,725	136,122	106,145	126,879	59,583	72,164	69,554
237,530	214,250	192,802	160,827	131,497	108,404	95,277
1.70	1.51	1.37	1.16	.96	.79	.68
94,210	76,352	65,755	54,841	48,131	41,309	32,143
.67½	.53⅔	.47	.40	.36	.31	.23⅔
387	805	1,220	2,198	3,075	3,138	3,147
139,662,554	142,050,768	140,322,840	136,755,120	134,329,482	133,979,586	135,657,678
136,971	111,385	140,451	128,604	98,061	111,623	85,441
70,245	64,196	59,232	56,362	49,259	38,371	30,755
2,342,970	2,178,693	2,129,570	2,039,578	1,936,736	1,607,181	1,322,406
448,676	384,049	455,672	432,451	502,465	342,918	228,002
1,120,659	1,139,610	1,029,830	944,668	843,839	755,599	678,877
29.0	26.6	25.0	25.5	19.6	20.9	20.9
21.0	19.8	19.5	18.0	16.4	15.1	14.6
8.19	7.90	7.16	6.58	5.87	5.21	4.65
19¾	15⅝	11⅛	9¾	7⅜	7⅝	6¾
13⅜	9¾	8⅜	6⅜	5¾	5⅞	4⅞

World Locations.

H.J. HEINZ COMPANY

WORLD HEADQUARTERS
P.O. Box 57
Pittsburgh, Pennsylvania 15230-0057

HEINZ U.S.A. DIVISION
Established 1869
Pittsburgh, Pennsylvania
David W. Sculley, President and Chief Executive Officer
Factories:
Fremont, Ohio
Gridley, California
Holland, Michigan
Leominster, Massachusetts
Metcalfe, Mississippi
Muscatine, Iowa
Pittsburgh, Pennsylvania
Stockton, California
Tracy, California
Watsonville, California

STAR-KIST FOODS, INC.
Acquired 1963
Long Beach, California
Joseph J. Bogdanovich, Chairman
Richard L. Beattie, President and Chief Executive Officer
Factories:
Bloomsburg, Pennsylvania
El Paso, Texas
Muscatine, Iowa
Perham, Minnesota
Terminal Island, California
Weirton, West Virginia
Cold Storage/Collection Stations:
LePort, Reunion Island
Port Louis, Mauritius
St. Lucia, British West Indies

STAR-KIST CARIBE, INC.
Acquired 1963
Factory: Mayaguez, Puerto Rico

STAR-KIST SAMOA, INC.
Acquired 1963
Factory: Pago Pago, American Samoa

STAR-KIST INTERNATIONAL S.A.
Acquired 1963
Panama City, Panama
Factory/Collection Stations:
Abidjan, Ivory Coast
Tema, Ghana

STAR-KIST CANADA, INC.
Acquired 1981
Factory: St. Andrews, New Brunswick

MASTAR, INC.
Acquired 1987
Factory: Biloxi, Mississippi

CALIFORNIA HOME BRANDS HOLDINGS, INC.
Acquired 1988
Factories:
Camp Hill, Pennsylvania
Etiwanda, California
Long Beach, California
San Leandro, California
Wilmington, California

ETS. PAUL PAULET
Acquired 1981
Claude Cornu-Thenard, President
Factories:
Douarnenez, France
Ploemel, France
Pornic, France

MARIE ELISABETH – PRODUCTOS ALIMENTARES, S.A.
Acquired 1988
Factories:
Matosinhos, Portugal
Peniche, Portugal

ORE-IDA FOODS, INC.
Acquired 1965
Boise, Idaho
Gerald D. Herrick, President and Chief Executive Officer
Factories:
Burley, Idaho
Ontario, Oregon
Plover, Wisconsin

ORE-IDA VENDED PRODUCTS, INC.
(formerly Friteco, Inc.)
Acquired 1987
Boise, Idaho
Lee R. Bondurant, Vice President and Chief Operating Officer

FOODWAYS NATIONAL, INC.
Acquired 1978
Boise, Idaho
John C. Glerum, Executive Vice President
Factories:
Massillon, Ohio
Wethersfield, Connecticut

GAGLIARDI BROS., INC.
Acquired 1980
Boise, Idaho
John C. Glerum, Executive Vice President
Factory: West Chester, Pennsylvania

THE HUBINGER COMPANY
Acquired 1975
Keokuk, Iowa
Bruce W. Brown, President and Chief Executive Officer
Factory: Keokuk, Iowa

WEIGHT WATCHERS INTERNATIONAL, INC.
Acquired 1978
Jericho, New York
Albert Lippert, Chairman
Charles M. Berger, President and Chief Executive Officer

CARDIO-FITNESS CORPORATION
Acquired 1985
New York, New York
Jerome Zuckerman, President

H.J. HEINZ COMPANY AUSTRALIA LTD.
Established 1935
Dandenong, Victoria
Terence Ward, Managing Director and Chief Executive Officer
Factory: Dandenong, Victoria
Greenseas Division: Eden, New South Wales

EPICUREAN FOODS AND BEVERAGES PTY. LTD.
Formed by merger 1978
Noble Park, Victoria
Terence Ward, Managing Director
Factory: Noble Park, Victoria

H.J. HEINZ COMPANY OF CANADA, LTD.
Established 1909
Toronto, Ontario
Thomas D. Smyth, Chairman
William C. Springer, President and Chief Executive Officer
Factory: Leamington, Ontario

GALCO FOOD PRODUCTS LTD.
Acquired 1971
Bramalea, Ontario
William C. Springer, Chairman
John F. Day, Chief Executive Officer
Factory: Bramalea, Ontario

PRO PASTRIES, INC.
Acquired 1987
Mississauga, Ontario
Thomas D. Smyth, Chairman
Edward A. Krucker, President
Factory: Mississauga, Ontario

PRO BAKERS LTD.
Acquired 1987
Buffalo, New York
Thomas D. Smyth, Chairman
Edward A. Krucker, President
Factory: Buffalo, New York

LATIN AMERICAN AREA OFFICE
Mexico City, Mexico
Manuel Albarran, Area Director

CARIBBEAN RESTAURANTS, INC.
Acquired 1976
San Juan, Puerto Rico
F. Gerardo Larrea, President

ALIMENTOS HEINZ C.A.
Established 1959
Caracas, Venezuela
John M. Werner, President
Factory: San Joaquin, Carabobo

HEINZ JAPAN LTD.
Established 1961
Tokyo, Japan
Masahira Ogawa, President
Factory: Utsunomiya

H.J. HEINZ COMPANY LTD.
Established 1905
Hayes, Middlesex, England
John F. Hinch, Managing Director
Factories: Harlesden (London)
Kitt Green

W. DARLINGTON AND SONS LTD.
Acquired 1969
Rustington, Sussex, England
John F. Hinch, Chairman
John Bodmer, Vice-Chairman
Farms:
Angmering
Bradford-on-Avon
Camberley
Horley
Poling
Rustington
Woking

SOMYCEL S.A.
Established 1973
Paris, France
John Bodmer, President

MONTROSE CANNED FOODS LTD.
Established 1983
Hayes, Middlesex, England
John F. Hinch, Chairman

S.A. H.J. HEINZ CENTRAL EUROPE N.V.
Established 1984
Brussels, Belgium
Robert M. Kuijpers, Managing Director
Pieter den Dulk, Deputy Managing Director

H.J. HEINZ B.V.
Acquired 1958
Elst, Gelderland, The Netherlands
Robert M. Kuijpers, Managing Director
Pieter den Dulk, Deputy Managing Director
Factory: Elst

JOHMA HOLDING INTERNATIONAL B.V.
Acquired 1984
Losser, The Netherlands
Bob Oomkens, Managing Director
Factory: Losser

H.J. HEINZ BRANCH BELGIUM
Established 1984
Brussels, Belgium
Jean-Claude Jamar, Legal Representative

NADLER-WERKE GmbH
Acquired 1979
Mannheim, West Germany
Management Group:
Robert M. Kuijpers, Chairman
Jürgen Methe
Karl-August Sabrowski
Factories:
Biblis
Bottrop
Bremerhaven
Leichlingen
Mannheim
Sarstedt

H.J. HEINZ S.A.R.L.
Established 1979
Paris, France
Robert M. Kuijpers, Gérant

H.J. HEINZ GmbH
Established 1970
Cologne, West Germany
Management Group:
Robert M. Kuijpers, Pieter den Dulk

IDAL (INDUSTRIAS DE ALIMENTACAO, LDA.)
Acquired 1965
Lisbon, Portugal
Jorge Giralt, Managing Director
Factory: Benavente

PLADA (PLASMON DIETETICI ALIMENTARI S.p.A.)
Acquired 1963
Milan, Italy
Luigi Ribolla, President and Managing Director
Factories:
Latina
Milan
Ozzano Taro

LIVEN INTERNATIONAL S.p.A.
Acquired 1978
Milan, Italy
Luigi Ribolla, Sole Administrator
Appio Massari, Director General
Factory: San Stino di Livenza (Venice)

SPERLARI S.p.A.
Acquired 1981
Cremona, Italy
Luigi Ribolla, President
Gianfranco Pantaleoni, Managing Director
Factory: Cremona

SCARAMELLINI S.p.A.
Acquired 1986
Chiavenna, Italy
Luigi Ribolla, President
Lorenzo and *Franco Moro,* Managing Directors
Factories:
Chiavenna
Gordona

S. ORLANDO S.A.
Acquired 1987
San Sebastian, Spain
Luigi Ribolla, Vice President
Juan Orlando, Managing Director
Claudio Serafini, Director General
Factories:
Alfaro
Bermeo
Ejea de Los Caballeros
Fuenterrabia
Zeneta

OLIVINE INDUSTRIES (PRIVATE) LIMITED
Acquired 1982
Harare, Zimbabwe
William Margolis, Chairman
Douglas N. Dibb, Managing Director and Chief Executive Officer
Factory: Harare

KGALAGADI SOAP INDUSTRIES (PROPRIETARY) LIMITED
Acquired 1988
Gaborone, Botswana
I. Laurie W. Bagshaw, Managing Director
Factory: Gaborone

HEINZ-UFE LTD.
Established 1984
Guangzhou, Guangdong Province, People's Republic of China
Wah-hui Chu, General Manager
Factory: Guangzhou

JUICE DRINKS
Established 1985
Pittsburgh, Pennsylvania
Eric Y. Johnson, President

FRUTSI ALIMENTICIA S.A.
Established 1986
São Paulo, Brazil
Paulo F. Bueno, Executive Director
Factory: Matao

SEOUL-HEINZ LTD.
Established 1986
Seoul, South Korea
Chung Taik Suh, Chairman
Dietmar Kluth, President and Representative Director
Factory: Inchon

HEINZ WIN CHANCE LTD.
Established 1987
Bangkok, Thailand
Thomas Chen, President
Factory: Bangplee

Directors and Officers.

H.J. HEINZ COMPANY

BOARD OF DIRECTORS

Anthony J.F. O'Reilly, Chairman, President and Chief Executive Officer. Director since 1971 (1, 3, 6)

Joseph J. Bogdanovich, Senior Vice President; Chairman, Star-Kist Foods, Inc. Director since 1963 (1)

Nicholas F. Brady, Chairman and a Managing Director, Dillon, Read & Co., Inc., New York, New York. Director since 1987 (2, 3, 6)

J. Wray Connolly, Senior Vice President. Director since 1985 (1)

Paul I. Corddry, Senior Vice President. Director since 1986 (1)

Richard M. Cyert, President, Carnegie Mellon University, Pittsburgh, Pennsylvania. Director since 1984 (3, 4, 6)

R. Derek Finlay, Senior Vice President-Corporate Development. Director since 1981 (1, 5)

Samuel C. Johnson, Chairman and Chief Executive Officer, S.C. Johnson & Son, Inc., Racine, Wisconsin. Director since 1988*

Albert Lippert, Chairman, Weight Watchers International, Inc. Director since 1978 (2, 6)

F. James McDonald, Retired as President and Chief Operating Officer, General Motors Corporation, Detroit, Michigan on August 31, 1987. Director since 1977 (2, 3, 4)

Richard B. Patton, Senior Vice President. Director since 1982 (1)

Herman J. Schmidt, Director, Various Corporations. Director since 1977 (2, 3, 4, 6)

Eleanor Bernert Sheldon, Social Scientist. Director since 1979 (2, 4, 6)

William P. Snyder III, President, Wilpen Group, Inc., Pittsburgh, Pennsylvania. Director since 1961 (2, 3, 4)

Karl M. von der Heyden, Senior Vice President-Finance and Chief Financial Officer. Director since 1983 (1, 5)

S. Donald Wiley, Senior Vice President, General Counsel and Secretary. Director since 1972 (1, 5)

COMMITTEES OF THE BOARD

(1) Executive Committee
(2) Management Development and Compensation Committee
(3) Nominating Committee
(4) Audit Committee
(5) Investment Committee
(6) Public Issues Committee
*Elected May 1, 1988

OFFICERS

Anthony J.F. O'Reilly, Chairman, President and Chief Executive Officer

Joseph J. Bogdanovich, Senior Vice President

J. Wray Connolly, Senior Vice President

Paul I. Corddry, Senior Vice President

R. Derek Finlay, Senior Vice President-Corporate Development

George C. Greer, Vice President-Organization Development and Administration

Lee S. Harrow, Vice President-Technical Development

Lawrence J. McCabe, Vice President and Associate General Counsel

Thomas H. McIntosh, Retired as Vice President-Corporate Public Relations on April 1, 1988

Richard B. Patton, Senior Vice President

Paul F. Renne, Vice President and Treasurer

Walter G. Schmid, Vice President-Corporate Planning

Karl M. von der Heyden, Senior Vice President-Finance and Chief Financial Officer

Robert N. White, Vice President and Controller

S. Donald Wiley, Senior Vice President, General Counsel and Secretary

CORPORATE DATA

Transfer Agent, Registrar and Disbursing Agent: Mellon Bank N.A., Pittsburgh, Pennsylvania

Auditors: Coopers & Lybrand, Pittsburgh, Pennsylvania

Stock Listing: New York Stock Exchange. Ticker Symbols – Common: HNZ; Third Cumulative Preferred: HNZ PR

Pacific Stock Exchange. Ticker Symbol – Common: HNZ

HEINZ: A DEFINITION

H. J. Heinz Company is a worldwide provider of processed food products and services. Operating within the food industry, it exhibits a high degree of diversity, shaping its activities in various ways to its various markets. It provides employment for approximately 39,000 people full-time, plus thousands of others on a part-time basis and during seasonal peaks. These employees work primarily out of headquarters and production facilities spanning the globe. They follow the highest standards in carrying out their duties, which involve the manufacture and sale of processed food products and food ingredients and the dissemination of knowledge about nutrition, health and weight control. The thousands of items they make reach retail and foodservice markets in scores of countries and territories.

ANNUAL MEETING

The annual meeting of the company's shareholders will be held at 2 p.m. on Wednesday, September 7, 1988, in Pittsburgh. Proxy materials and formal notice of the meeting will be sent to shareholders about August 2, 1988.

OTHER INFORMATION

The company submits an annual report to the Securities and Exchange Commission on Form 10-K. Shareholders may obtain a copy of this Form 10-K without charge by writing to Corporate Affairs Department, H. J. Heinz Company, P.O. Box 57, Pittsburgh, Pennsylvania 15230-0057.

The company will, upon written request addressed to the secretary of the company and upon the prepayment of reasonable charges, provide shareholders with a copy of the company's pension plan description, the latest annual report of the administrator, and the trust agreement or contract under which the plan is established, for any of the domestic pension plans of the company.

INVESTOR INFORMATION

Securities analysts and investors seeking additional information about the company should contact John M. Mazur, assistant treasurer, at the corporate headquarters address or should call him at (412) 456-6014.

DIVIDEND REINVESTMENT

The company offers an Automatic Dividend Reinvestment Service for shareholders. The plan provides for the reinvestment of quarterly dividends in shares of the company's common stock. Shareholders may also purchase additional shares under the plan with cash contributions. The company pays brokerage commissions and service charges under the plan.

For additional information contact:
Mellon Bank, N.A.
P.O. Box 444
Pittsburgh, Pennsylvania 15230
(412) 391-5210

H. J. Heinz Company
P.O. Box 57
Pittsburgh, Pennsylvania 15230-0057
(412) 456-5700

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